Office of the Washington State Auditor
Pat McCarthy

Financial Statements and Federal Single Audit Report

City of Mount Vernon

For the period January 1, 2023 through December 31, 2023

Published December 19, 2024

Report No. 1036247

Office of the Washington State Auditor
Pat McCarthy

December 19, 2024

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 activities and condition.

Sincerely,

Pat McCarthy, State Auditor

Olympia, WA

Americans with Disabilities

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City of Mount Vernon
January 1, 2023 through December 31, 2023

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 basic 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 deficiencies that we consider to be material weaknesses.

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

Federal Awards

Internal Control over Major Programs:

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

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

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 programs were selected as major programs in our audit of compliance in accordance with the Uniform Guidance.

ALN	Program or Cluster Title
14.248	Community Development Block Grants Section 108 Loan Guarantees
21.027	COVID-19 – Coronavirus State and Local Fiscal Recovery Funds

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

See Finding 2023-001.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

City of Mount Vernon
January 1, 2023 through December 31, 2023

2023-001 The City's internal controls were inadequate for ensuring accurate financial reporting.

Background

The City Council, the Mayor, state and federal agencies, and the public rely on the information included in the financial statements and reports to make decisions. Management is responsible for designing and following internal controls that provide reasonable assurance the City's financial reporting is reliable and its financial statements are accurate.

Further, local governments that spend federal funds must prepare a Schedule of Expenditures of Federal Awards (SEFA) as part of their annual financial report. Federal regulations require grantees to identify on the SEFA all federal money they have spent.

The City prepares its financial statements in accordance with generally accepted accounting principles (GAAP).

Our audit found deficiencies in internal controls over account and financial reporting that affected the City's ability to produce reliable financial statements. *Government Auditing Standards* requires the State Auditor's Office to communicate material weaknesses in internal controls as a finding.

Description of Condition

We found deficiencies in internal controls that represent a material weakness. Specifically, the City's review process over the financial statements and SEFA was not sufficient to ensure amounts reported were accurate and complete as follows.

American Rescue Plan Act revenue recognition

The City received $9,053,048 of American Rescue Plan Act of 2021 (ARPA) grant advance funds. We found the City did not properly evaluate whether it had met eligibility requirements, including incurring eligible expenditures, as required to recognize the grant funds received as revenue.

During 2023, the City transferred $2 million of ARPA money from the ARPA fund to the capital projects fund, intending to spend the full amount for its Library Commons Project. While the City only spent $151,296 of the transfer, it reduced the related unearned revenue liability by the full transfer amount and improperly recognized the full amount as revenue. This also resulted in an error on the SEFA as the entire $2 million was reported as a federal expenditure.

Overhead cost allocation

Overhead costs consist of central services or support functions shared across departments. Typically, these services are initially paid through the general fund and charged back to the departments and programs that directly benefited from them. The expenditures recorded in the general fund should then be reduced by the overhead cost that was reallocated to other funds so that the general fund only reports its portion of expenditures.

The City paid for expenditures out of its general fund and utilized an overhead cost allocation to reallocate a portion of these costs to other funds. The City incorrectly recorded the reallocation as revenue in the general fund when it should have been a reduction of the expenditure. As a result, both revenues and expenditures were overstated as more activity was shown than actually occurred.

Cause of Condition

American Rescue Plan Act revenue recognition

The City recorded the transfer of resources early in the year and considered the amount spent when it was not. Historically, the City has transferred ARPA funds towards a project and has spent the full amount on eligible expenditures. However, in 2023, the City received additional funding for the library project which reduced the amount of expenditures charged against the ARPA funding.

Overhead cost allocation

The City has historically used this method to record allocations of overhead costs to other funds and has not recently reevaluated whether its reporting of cost allocations is in accordance with GAAP.

Effect of Condition

American Rescue Plan Act revenue recognition

- Intergovernmental revenues was overstated by $1,848,704 and unearned revenues was understated by the same amount in the ARPA fund and Governmental Activities.
- Transfers out of the ARPA fund and transfers into the capital projects fund were overstated by $1,848,704.
- Cash & investment balance in the ARPA fund was understated by $1,848,704 and overstated in the capital projects fund by the same amount.
- The Coronavirus State and Local Fiscal Recovery Fund (SLFRF), ALN 21.027 was overstated by $1,848,704 on the SEFA.

Overhead cost allocation.

- General fund and Governmental Activities revenues and expenditures were both overstated by $3,273,300.

The City corrected all the errors noted above in its final financial statements.

Recommendations

We recommend the City improve its controls to ensure it properly reports federal funds received in advance and overhead cost allocations in accordance with GAAP. This includes evaluating whether expenditures have met revenue recognition criteria before reporting the related revenues, ensuring cost allocations properly reduce expenditures in the originating fund, and reporting only actual expenditures on the SEFA.

Furthermore, we recommend the City strengthen internal controls over its year-end preparation and review process to ensure financial statement balances are properly classified and complete.

City's Response

American Rescue Plan Act revenue recognition

The City concurs. Although the City did understand and has met the ARPA expense eligibility requirements, we agree that the city did not incur the full expense that was transferred to the Mount Vernon Library Commons Project capital fund in error. As stated in the Cause of Condition, the City recorded the transfer of resources early in the year and considered the amount spent. Since the amount was *not fully spent in the capital fund, the City did not properly record this transaction causing the misstatements. The City has made all the proper corrections to the financial statements.*

Overhead cost allocation

The City concurs. As noted, the City has historically recorded overhead cost allocation as revenue in the General Fund and not as reductions to expenditures. The City has not recently reevaluated that this method was in accordance with GAAP and has made the proper corrections to the financial statements.

Auditor's Remarks

We appreciate the City's commitment to resolve this finding and thank the City for its cooperation and assistance during the audit. We will review the corrective action taken during our next regular audit.

Applicable Laws and Regulations

Government Auditing Standards, July 2018 Revision, paragraphs 6.40 and 6.41 establish reporting requirements related to significant deficiencies or material weaknesses in internal control, instances of fraud, and noncompliance with provisions of laws, regulations, contracts, or grant agreements.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in *its Codification of Statements on Auditing Standards*, section 265, Communicating Internal Control Related Matters Identified in an Audit, paragraph 7.

The Budgeting, Accounting and Reporting System (BARS) Manual, 3.1.3, Internal Control, required each local government to establish and maintain an effective system of internal controls that provides reasonable assurance that the government will achieve its objective.

RCW 43.09.200 Local government accounting – Uniform system of accounting, requires the State Auditor to prescribe the system of accounting and reporting for all local governments.

Governmental Accounting Standards Board (GASB) Statement No. 33, Accounting and Financial Reporting for Nonexchange Transactions, Paragraph 15.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

City of Mount Vernon
January 1, 2023 through December 31, 2023

This schedule presents the status of findings reported in prior audit periods.

Audit Period: January 1, 2022 through December 31, 2022	**Report Reference No.:** 1034129	**Finding Ref. No.:** 2022-001	**ALN(s):** 21.027
Federal Program Name and Granting Agency: COVID-19 – Coronavirus State and Local Fiscal Recovery Funds U.S. Department of the Treasury		**Pass-Through Agency Name:** N/A	
Finding Caption: The City did not have adequate internal controls for ensuring compliance with federal suspension and debarment requirements.			
Background: The City did not verify three contractors were not suspended or debarred from participating in federal programs before entering into contracts or paying them.			
Status of Corrective Action: ☒ Fully Corrected ☐ Partially Corrected ☐ Not Corrected ☐ Finding is considered no longer valid			
Corrective Action Taken: *The City has fully corrected this prior audit finding. Staff have all been educated on this requirement and verifications are being performed on all contractors utilizing federal funding to assure they are not suspended or debarred.*			

INDEPENDENT AUDITOR'S REPORT

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, 2023 through December 31, 2023

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, 2023, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 11, 2024.

REPORT ON 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) as a basis for designing 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 above and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified.

However, we identified certain deficiencies in internal control, as described in the accompanying Schedule of Audit Findings and Responses as Finding 2023-001, that we consider to be material weaknesses.

REPORT ON 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 its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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*.

CITY'S RESPONSE TO FINDINGS

Government Auditing Standards requires the auditor to perform limited procedures on the City's response to the findings identified in our audit and described in the accompanying Schedule of Audit Findings and Responses. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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

December 11, 2024

INDEPENDENT AUDITOR'S REPORT

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, 2023 through December 31, 2023

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

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

Opinion on Each Major Federal Program

We have audited the compliance of the City of Mount Vernon, with the types of compliance requirements identified as subject to audit 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, 2023. The City's major federal programs are identified in the auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

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, 2023.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); 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)* are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the City's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the City's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the City's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards* and the Uniform Guidance will always detect a material noncompliance when it exists. The risk of not detecting a material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgement made by a reasonable user of the report on compliance about the City's compliance with the requirements of each major federal program as a whole.

Performing an audit in accordance with GAAS, *Government Auditing Standards* and the Uniform Guidance includes the following responsibilities:

- Exercise professional judgment and maintain professional skepticism throughout the audit;
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the City's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances;
- Obtain an understanding of the City's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the City's internal control over compliance. Accordingly, no such opinion is expressed; and
- We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

REPORT ON 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 audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed. Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified.

Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

December 11, 2024

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

City of Mount Vernon
January 1, 2023 through December 31, 2023

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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinions

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, 2023, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the financial section of our report.

In our opinion, the accompanying 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, 2023, 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.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Matters of Emphasis

As discussed in Note 15 to the financial statements, in 2023, the City adopted new accounting guidance, Governmental Accounting Standards Board *Statement No. 96, Subscription-Based Information Technology Arrangements*. Our opinion is not modified with respect to this matter.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

Performing an audit in accordance with GAAS and *Government Auditing Standards* includes the following responsibilities:

- Exercise professional judgment and maintain professional skepticism throughout the audit;
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements;

- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed;
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements;
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time; and
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

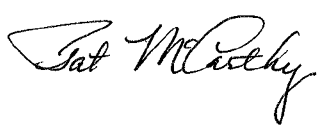
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed in the financial section of our report be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 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 supplementary information 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 as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2024 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 the effectiveness of the City's 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

December 11, 2024

FINANCIAL SECTION

City of Mount Vernon
January 1, 2023 through December 31, 2023

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MANAGEMENT DISCUSSION AND ANALYSIS

The management discussion and analysis section of the City of Mount Vernon's (City) annual financial report provides a narrative overview of the City's financial activities and financial position at the end of December 31, 2023. 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 $243,533,919 at the end of 2023. A total of 77.74%, or $189,313,841, of total net position is invested in capital such as streets, land, buildings, and utility infrastructure. Of the remaining net position, 3.52%, or $8,574,295 of total net position is unrestricted and available to meet the City's ongoing activities and obligations, and 18.74%, or $45,645,783 is restricted for debt service and other purposes.

The City's net position increased by $10,259,175 in 2023, representing a 4.40% increase compared to the 2022 net position. Net position for Governmental Activities increased 5.81% or $9,528,728 while Business-type Activities increased 1.06% or $730,447, compared to the prior year. Total investment in capital assets net of any related debt increased $13,241,032, or 7.52% due mainly to construction in progress of the Mount Vernon Library Commons Project. These bonds were issued to assure adequate cash flow through the life of the project are to be paid by the end of 2024.

Governmental fund balances at year end were $23,034,212 a decrease of $6,376,024, or down 21.68% compared to the prior year. Unassigned Fund Balance in the General Fund was $ 2,003,868 a decrease of $1,852,742 compared to the prior year. As noted in the Required Supplementary Information (RSI) for the General Fund, fund balance at year end was $15,620,579 or 31.76% 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 $23,034,212 in governmental fund balances at year end, nonspendable fund balance is 0.24% or $54,995 of the total which reflects prepaid and lease items; restricted fund balance is $13,343,396 or 57.93% of the total which reflects fund resources subject to externally enforceable legal restrictions; committed fund balance is 2.89% or $666,201 which represents City imposed limitations as to the use of funds by City Council action; assigned fund balance is 30.24% or $6,965,752 which reflects our City government's intended use for certain resources; and unassigned fund balance is 8.70% or $2,003,868 of total fund balance for governmental funds representing the excess resources of all other categorized fund balances.

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, public safety (police and fire), transportation, natural and economic environment, and culture and recreation. Property, sales, and utility taxes finance many 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 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, operating grants and contributions, capital 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 presents four governmental funds; the General Fund, ARPA Fund, Debt Service Fund, and the Capital Projects Fund. These funds have managerial funds rolled into them, see the notes to the financial statements for a detailed listing of each managerial fund rolled into these presented 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 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 and facility renewal.

Government-Wide Financial Analysis

Statement of Net Position

The following table provides a summary of the City's net position for the years ended December 31, 2023 and 2022.

	Governmental Activities		Business-type Activities		Total	
	2023	2022	2023	2022	2023	2022
Assets:						
Current assets and other assets	$ 59,442,517	$ 63,825,594	$ 18,748,892	$ 18,209,211	$ 78,191,409	$ 82,034,805
Capital assets, net depreciation	166,334,519	135,886,315	63,000,275	63,851,152	229,334,794	199,737,467
Total assets	225,777,036	199,711,909	81,749,167	82,060,363	307,526,203	281,772,272
Deferred Outflows:						
Pension obligation	6,591,101	6,091,779	676,866	752,993	7,267,967	6,844,772
Other postemployment benefits	223,140	223,794	-	-	223,140	223,794
Asset retirement obligations	31,373	34,283	-	-	31,373	34,283
Total deferred outflows	6,845,614	6,349,856	676,866	752,993	7,522,480	7,102,849
Liabilities:						
Current liabilities	12,356,312	11,196,470	1,852,581	589,413	14,208,893	11,785,883
Long-term liabilities	42,470,829	24,420,206	10,130,197	12,146,032	52,601,026	36,566,238
Total liabilities	54,827,141	35,616,676	11,982,778	12,735,445	66,809,919	48,352,121
Deferred Inflows:						
Pension obligation	3,790,545	5,926,065	508,322	861,675	4,298,867	6,787,740
Leases	405,978	448,765	-	11,750	405,978	460,515
Total deferred inflows	4,196,523	6,374,830	508,322	873,425	4,704,845	7,248,255
Net position:						
Net investment in capital assets	135,784,203	123,652,732	53,529,638	52,420,077	189,313,841	176,072,809
Restricted	42,693,004	29,246,242	2,952,779	2,627,585	45,645,783	31,873,827
Unrestricted	(4,878,221)	11,171,284	13,452,516	14,156,824	8,574,295	25,328,108
Total net position	$ 173,598,986	$ 164,070,258	$ 69,934,933	$ 69,204,486	$ 243,533,919	$ 233,274,744

The largest component of the City's net position, 77.74% or $189,313,841 is its investment in capital assets less any related outstanding debt issued to acquire those assets. These capital assets are used to provide services to the citizens and businesses of the City.

Net position of the City's governmental activities increased 5.81% or $9,528,728 while net position of the City's business type activities increased 1.06% or $730,447 in 2023. Net position of the business-type activities can only be used to finance the continuing operations of wastewater, solid waste, and surface water utilities.

Approximately $45,645,783, or 18.74% of the City's total net position is subject to legal restrictions. Some of the larger restrictions include: debt service, impact fees that must be dedicated to a particular use (transportation, parks, and fire), motor vehicle fuel tax dedicated for street operations or capital expenditures, lodging taxes reserved for tourism related activities and real estate excise taxes that are restricted for capital improvements.

Change in Net Position

The following table provides a summary of the City's changes in net position for the years ended December 31, 2023 and 2022.

	Governmental Activities		Business-type Activities		Total	
	2023	2022	2023	2022	2023	2022
Revenues:						
Program revenues:						
Charges for services	$ 8,180,541	$ 9,800,414	$ 19,698,009	$ 18,769,735	$ 27,878,550	$ 28,570,149
Operating grants and contributions	5,153,893	7,771,625	235,815	218,429	5,389,708	7,990,054
Capital grants and contributions	9,586,128	4,327,156	1,060,819	188,523	10,646,947	4,515,679
General revenues:						
Property taxes	8,504,665	8,211,315	-	-	8,504,665	8,211,315
Sales taxes	11,210,050	11,075,084	-	-	11,210,050	11,075,084
Other taxes	12,611,715	12,769,149	-	-	12,611,715	12,769,149
Other (net)	2,066,324	178,085	450,191	(139,713)	2,516,515	38,372
Total revenues	57,313,316	54,132,828	21,444,834	19,036,974	78,758,150	73,169,802
Program expenses:						
General government	8,916,963	9,884,368	-	-	8,916,963	9,884,368
Public safety	23,290,771	21,184,782	-	-	23,290,771	21,184,782
Transportation	7,816,930	6,333,802	-	-	7,816,930	6,333,802
Natural and economic environment	2,381,847	2,860,959	-	-	2,381,847	2,860,959
Social services	577,071	-	-	-	577,071	-
Culture and recreation	3,823,004	3,974,409	-	-	3,823,004	3,974,409
Interest on long-term debt	978,002	1,575	-	-	978,002	1,575
Wastewater	-	-	11,239,834	10,019,046	11,239,834	10,019,046
Solid Waste	-	-	6,466,499	6,229,612	6,466,499	6,229,612
Surfacewater	-	-	3,008,055	2,825,176	3,008,055	2,825,176
Total expenses	47,784,588	44,239,895	20,714,388	19,073,834	68,498,976	63,313,729
Revenues over (under) expenses	9,528,728	9,892,933	730,446	(36,860)	10,259,174	9,856,073
Transfers in (out)	-	-	-	-	-	-
Change in net position	9,528,728	9,892,933	730,446	(36,860)	10,259,174	9,856,073
Beginning net position	164,070,258	154,177,325	69,204,486	69,241,346	233,274,744	223,418,671
Prior period adjustment	-	-	-	-	-	-
Ending net position	$ 173,598,986	$ 164,070,258	$ 69,934,933	$ 69,204,486	$ 243,533,919	$ 233,274,744

Governmental Activities Analysis

Governmental activities net position increased $9,528,728 a 5.81% increase in 2023 compared to 2022. The key elements of variations are as follows:

Infrastructure improvements and capital purchases in governmental activities increased $37,836,000. Annual depreciation and amortization expense was $7,387,796 and long-term debt principal payments totaled $290,000 in 2023.

Revenues to fund capital assets are recorded as program or general revenues in the statement of activities. Capital grants and contributions in the amount of $9,586,128 are included in program revenues and funded capital projects like the Mount Vernon Library Commons, Hoag/Laventure Intersection Improvements, and Riverside Drive Improvement Project. 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.

Operating grants and contributions in the amount of $5,153,893 included $1,317,011 in American Rescue Plan Act (ARPA) funds, $1,627,486 from the Emergency Medical Services (EMS) Levy, $650,157 in Motor Vehicle Fuel Tax revenues, $521,438 from Liquor Excise Tax and Liquor Board Profits revenue, as well as $147,758 in CDBG Entitlement Grant Funds.

Major tax revenues that support ongoing operations showed an overall increase of $270,882 in 2023 compared to 2022. Property taxes increased by $293,350 or 3.57% while Sales taxes increased $134,966 or 1.22%.

Investment earnings for government activities were $1,138,558 in 2023 and $562,807 in 2022, an increase of $575,751. 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 Analysis

Business-type Activities net position increased by $730,447 at December 31, 2023, or 1.06% as compared to December 31, 2022. Net capital assets for business–type activities increased $3,128,304 due to purchases of capital projects in 2023. The annual depreciation and amortization expense was $3,979,181.

The *Wastewater Utility* net position decreased by $198,654, or 0.37%, as compared to 2022. This decrease was mainly due to increases in operations and maintenance of the Wastewater Treatment Plant. There was a $1.93 million decrease in loans payable due to principal payments made.

The *Solid Waste Utility* net position increased by $35,245, or 1.93%, as compared to 2022. The Solid Waste Utility had consistently been taking a loss in recycling services, so it has contracted with Waste Management which started providing these services starting in 2023. Since a decrease in recycling revenue was anticipated, a solid waste rate study was conducted in 2022 and applicable rate increases started taking place in June of 2023.

The *Surface Waste Utility* net position increased by $893,856, or 6.56%, as compared to 2022. This is due to increased charges for services revenue and capital contributions to provide funding for future and current capital expenditures.

Financial Analysis of the City's Funds

The purpose of the City's governmental funds is reported in the fund statements with a focus on short-term inflow and outflow of spendable resources. This information is useful in assessing resources available at the end of the year in comparison with upcoming financing requirements. Governmental funds reported ending fund balances of $23,034,212 at December 31, 2023 as compared to the amount of $29,410,236 at December 31, 2022 which is a 21.68% decrease from last year.

General Fund

The General Fund is the City's primary operating fund and the largest funding source for daily operational service delivery. The General Fund's fund balance decreased by $773,081 or 4.72% in 2023 as compared to 2022.

Taxes are the major revenue source for the General Fund, providing 72.62% of the revenues to support 2023 expenditures. Total tax revenues increased by $778,978 or 2.62%. Included in the General Fund are the Affordable and Supportive use tax (HB1406) with collections of $65,950 and the Affordable Housing Sales and Use Tax (HB1590) with collections of $1,168,153 in 2023. This tax revenue is restricted for the use of affordable housing construction, programs or housing-related services.

In 2023, major expenditures provided for in the General Fund increased by $5,624,761 or 15.06% compared to 2022.

ARPA Fund

In 2021, the American Rescue Plan Act (ARPA) established the Coronavirus Local Fiscal Recovery Fund which allocated the City $9,053,048 in funding to be distributed 50% or $4,526,524 that was received in 2021 and the other 50% was received in 2022. This fund was created to account for this funding which is to be used to help mitigate the effects of the COVID-19 pandemic. The City recorded $1,357,355 in ARPA revenue including interest, expenditures of $1,165,714, and a transfer of $151,296 to the Mount Vernon Library Commons project in 2023. The fund balance remaining in the fund is related to investment earnings and change in the fair value of investments.

Debt Service Fund

The Debt Service Fund was created to record the transfer in and payment of the annual debt service and interest payment for the Fire station remodel Limited Tax General Obligation Bonds. The total payment amount is transferred in from the Fire Capital Projects Fund which receives revenue from the Ground Emergency Medical Transportation (GEMT) Program.

Capital Projects Fund

The Capital Projects Fund had an overall decrease in total fund balance of $5,643,290 or 43.35%. This is due to activity in major capital projects such as the Mount Vernon Library Commons project and the Fire Station remodel projects.

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 General Fund revenue budget was increased by $261,150 in 2023. This was to account for $200,000 in revenues received from PUD for the renovation of Hillcrest Park and Edgewater Park playfields as well as $23,650 in combined donations from the Kiwanis Club and the Downtown Association for improvements to the 25th Street Playground project and a new audio system for the Hillcrest Lodge. The City also received $37,500 to account for a grant for information technology equipment upgrades in the court room.

The General Fund expenditure budget was increased by $871,398 in 2023. This increase was for expenditures of $37,500 for IT equipment upgrades to the court room. The Affordable and Supportive Housing Fund required an increase in the amount of $110,000 for contributions to the Immigrant Resources & Immediate Support (IRIS) in the amount of $30,000, The Friendship House in the amount of $55,000, and Family Promise of Skagit in the amount of $25,000. Also included was an increase of $200,000 for renovations made to the Hillcrest Park and Edgewater Park playfields, $9,050 for the 25th Street Playground Project and $14,600 for an audio system at Hillcrest Lodge. The Affordable Housing Sales & Use Tax Fund required an increase in appropriated expenditures in the amount of $500,000 to account for an agreement with Skagit County Public Health for Martha's Place permanent supportive housing operations, maintenance and services. The final amount of $248 was to fund a correction of a negative reserve in the Municipal Arts Fund.

The General Fund also had an increase in transfers out budget in the amount of $50,000 from the Lincoln Commercial Block Building fund for the purchase and installation of a new HVAC in the Lincoln Commercial Block Building.

Capital Assets and Debt Administration

Capital Assets

As of December 31, 2023, the City's capital assets net of accumulated depreciation and amortization, for governmental and business-type activities, amounts to $229,334,794, a 22.41% increase for governmental activities and a 1.35% decrease for business-type activities. The overall decrease was -0.78% for the City as a whole. New lease assets are located here as well in 2023.

The following table provides a summary of capital asset activity for the years ended December 31, 2023 and 2022.

	Governmental Activities		Business Activities		Total	
	2023	2022	2023	2022	2023	2022
Nondepreciable assets:						
Land	$ 34,441,985	$ 34,279,803	$ 4,008,581	$ 3,903,006	$ 38,450,566	$ 38,182,809
Art collections	146,341	146,341	-	-	146,341	146,341
Construction in progress	43,597,405	12,093,536	2,610,050	2,239,888	46,207,455	14,333,424
Total nondepreciable assets	78,185,731	46,519,680	6,618,631	6,142,894	84,804,362	52,662,574
Depreciable and amortized assets:						
Buildings	18,058,273	17,196,543	57,623,730	57,453,968	75,682,003	74,650,511
Other improvements	36,408,207	36,106,276	85,899,691	84,003,733	122,307,898	120,110,009
Machinery and equipment	24,430,337	23,435,682	2,184,901	1,598,054	26,615,238	25,033,736
Infrastructure	102,172,226	100,082,490	-	-	102,172,226	100,082,490
Right-to-use leased assets	126,206	126,083	33,691	37,135	159,897	163,218
Subscription assets	1,842,359	-	-	-	1,842,359	-
Total depreciable and amortized assets	183,037,608	176,947,074	145,742,013	143,092,890	328,779,621	320,039,964
Less accumulated depreciation and amortization	94,888,820	87,580,439	89,360,369	85,384,632	184,249,189	172,965,071
Book value - depreciable assets	88,148,788	89,366,635	56,381,644	57,708,258	144,530,432	147,074,893
Percentage depreciated	52%	49%	61%	60%	56%	54%
Book value - all assets	$ 166,334,519	$ 135,886,315	$ 63,000,275	$ 63,851,152	$ 229,334,794	$ 199,737,467

At December 31, 2023, the depreciable capital assets for governmental activities were 52% depreciated compared to 49% in 2022. Major additions for the year are primarily related to;

Governmental Activities: Nondepreciable Construction in progress increased by $31,503,869 with the majority of that increase for major construction of the Mount Vernon Library Commons Project.

Business-type Activities: The City's capital assets net of accumulated depreciation decreased $850,877 in 2023 or by 1.35%. Other improvements depreciable assets increased by $1,895,958 due to improvements at the Wastewater Treatment Plant.

Additional information on the City's capital assets can be in the notes to the financial statements.

Long Term Debt

The following table reports outstanding long-term obligations at both December 31, 2023 and 2022.

	Governmental Activities		Business-type Activities		Totals	
	2023	2022	2023	2022	2023	2022
Bonds, loans, and premiums	$ 28,608,130	$ 12,141,291	$ 9,454,261	$ 11,380,954	$ 38,062,391	$ 23,522,245
Compensated absences	2,080,062	1,974,682	284,396	277,668	2,364,458	2,252,350
Lease liabilities	67,355	92,292	16,376	25,904	83,731	118,196
Subscription liabilities	1,468,855	-	-	-	1,468,855	-
Pension obligation	1,151,858	1,345,162	375,164	437,289	1,527,022	1,782,451
Other postemployment benefits	8,885,422	8,670,875	-	-	8,885,422	8,670,875
Asset retirement obligation	209,150	195,904	-	-	209,150	195,904
Total	$ 42,470,832	$ 24,420,206	$ 10,130,197	$ 12,121,815	$ 52,601,029	$ 36,542,021

The City acquired two new Limited Tax General Obligation Bonds in 2022 for the design, engineering, and construction costs for the remodel of Fire Stations 2 and 3. The first series were Limited Tax General Obligation Bonds, 2022A in the aggregate principal amount of $9,530,000 and the second were Limited General Obligation Bonds, 2022B (Taxable) in the aggregate principal amount of $2,150,000. These are both 20-year bonds.

In 2023, the City made all required principal and interest payments as set forth in all loan agreements.

The City 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. Additional information on the City's long-term debt activity can be found in the notes to the financial statements.

The City entered into a short-term limited tax general obligation (LTGO) bond anticipation note to provide interim financing for the Mount Vernon Library Commons (MVLC) project. The note was issued in the amount not to exceed $21,000,000 with a maturity date of December 1, 2024. The City will be turning this short-term debt into long-term debt by paying the balance owed with loan proceeds that will be received in 2024 from the U.S. Department of Transportation, Build America Bureau, Transportation Infrastructure Finance and Innovation Act (TIFIA) for the use and financing of the MVLC project.

Other Potentially Significant Matters

New Accounting Standards

As of January 1, 2023, the City successfully implemented GASB Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITAs)*. This statement establishes accounting and financial reporting guidance for SBITAs. A SBITA is defined as a contract that conveys control of the right to use another party's IT software, alone or in combination with tangible underlying IT assets, in an exchange or exchange-like transaction for a period exceeding 12 months. The City is required to recognize a subscription liability and an intangible right-to-use subscription asset. Cash outlays necessary to place the subscription asset in service can be capitalized during the initial project implementation stage.

Subsequent Events

i. Over the last few years, the City has been involved in multiple opioid related lawsuits which have been, or are being, settled. This has resulted in the City being awarded over $1.590 million. These funds are intended to be spent on opioid-related issues.

   In September 2022, the City entered into an agreement outlining the distribution of funds received due to the settlement of opioid litigation brought against 5 major Opioid distributors, manufactures, and their parent company. The City will receive a total of just over $569,331 over the next 18 years.

   In April 2023, the City an agreement outlining the distribution of the funds received due to the settlement of opioid litigation brought against 5 major Opioid retailers. The City will receive a total of $607,831, before legal fees, from this settlement. Payments will be distributed to the City at different rates over a period of 15 years.

In June 17, 2024, the City received payment of $154,259.10 for its portion of the Johnson & Johnson (Janssen) opioid settlement. The City is also participating in an opioid settlement with Kroger Co. that could see an estimated $226,185 paid to the City over a currently undetermined period of time.

ii. In April 2024, the City received a loan, not to exceed $26,825,549, through the U.S. Department of Transportation, Build America Bureau, Transportation Infrastructure Finance and Innovation Act (TIFIA) for the use and financing of the Library Commons Project. In March of 2023, the City issued sale of a short-term LTGO Bond Anticipation Note to provide interim financing for the MVLC project. The Note was issued to Cashmere Valley Bank in the amount not to exceed $21,000,000 with a maturity date of December 1, 2024. The City will be using the TIFIA loan proceeds to pay off the outstanding balance of $15,080,000.

iii. In 2024, the City anticipates receiving a grant from the Federal Highway Administration, Charging and Fueling Infrastructure Grant Program in the amount of $12.5 million. The funds from this grant are to be used for Mount Vernon Library Commons Project.

Economic Factors

The City considered many factors when setting the 2023 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 2023. 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 have slowly been increasing over the past several years. These revenues for the year ended in 2023 continued to show slow and steady improvement. The 2023 sales tax revenues were 1.22% higher than 2022. Property tax collection rates and new construction activity have also been consistently rising. The City closely monitors its financial condition throughout the year, reviewing monthly revenue trends and expenditure activity, and will continue to make sound, thoughtful fiscal decisions on behalf of the City. In addition, the City Council and Mayor take a conservative view on budget growth, as is reflected in our annual adopted budgets. The City has adopted financial management policies that are reviewed annually and are used as tools in the management of the fiscal health of the City.

The City's overall financial position remains sound, which in part can be attributed to a proactive and watchful approach to monitoring and reacting to financial conditions. Total net position for the City increased by 4.82% in 2023 compared to 2022. The City remains cautiously optimistic about the City's future economic health.

The City has seen a resurgence in economic activity and new businesses opening in our downtown core resulting in part from the completion of the Downtown Waterfront project. The City's assessed value per capita has increased 4.7%, from $5,457,245,121 in 2022 to $5,713,302,967 in 2023.

The final component of the build out of the downtown area was the construction of a parking facility structure in the core downtown area to address future development and related parking needs. After years of design and engineering, in 2022, the City began the construction phase of the Mount Vernon Library Commons (MVLC) project that includes a new city library, community center and parking structure. One major component of financing for this project is the utilization of the Local Infrastructure Financing Tool (LIFT) award. Mount Vernon's City Council approved an ordinance, imposing a local sales and use tax to be credited against the Washington State Sales and Use Tax for purposes of utilizing the Local Infrastructure Financing under Chapter 39.102 of the Revised Code of Washington (RCW). Other funding sources include city funding, as well as federal, state and local grants. The MVLC project is scheduled to be completed in Fall of 2024.

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 primarily relies on property, sales and utility taxes, and franchise fees to fund governmental activities. The City will continue to deliver services to all Mount Vernon residents and operate in a sound and fiscally responsible manner.

Financial Contact

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

City of Mount Vernon, Washington
Statement of Net Position
As of December 31, 2023

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets:			
Cash and cash equivalents	$ 12,091,548	$ 5,404,224	$ 17,495,772
Investments	26,698,576	7,210,573	33,909,149
Receivables:			
Accounts (net of allowance for uncollectible)	3,379,527	5,062,188	8,441,715
Taxes	3,974,779	-	3,974,779
Grants	2,260,121	73,893	2,334,014
Leases	97,054	-	97,054
Interest	182,958	49,062	232,020
Internal balances	(65,501)	65,501	-
Inventory	101,835	-	101,835
Prepaid items	39,442	33,195	72,637
Noncurrent assets:			
Non-current receivable - related to interlocal	297,325	-	297,325
Non-current receivable - related to leases	324,477	-	324,477
Pension asset	10,060,376	850,256	10,910,632
Capital assets not being depreciated:			
Land	34,441,985	4,008,581	38,450,566
Art	146,341	-	146,341
Construction in progress	43,597,405	2,610,050	46,207,455
Capital assets, (net of accumulated depreciation or amortization):			
Buildings	6,482,315	24,483,463	30,965,778
Other improvements	26,811,033	30,767,640	57,578,673
Machinery and equipment	7,014,726	1,113,928	8,128,654
Infrastructure	46,306,793	-	46,306,793
Right-to-use leased assets	67,371	16,613	83,984
Subscription assets	1,466,550	-	1,466,550
Total capital assets	166,334,519	63,000,275	229,334,794
Total assets	225,777,036	81,749,167	307,526,203
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions	6,591,101	676,866	7,267,967
Other postemployment benefit obligations	223,140	-	223,140
Asset retirement obligation	31,373	-	31,373
Total deferred outflows of resources	6,845,614	676,866	7,522,480
LIABILITIES			
Current liabilities:			
Accounts payable	7,552,601	1,634,742	9,187,343
Accrued wages and benefits	1,309,084	206,755	1,515,839
Accrued interest	206,148	11,084	217,232
Unearned revenue	3,288,479	-	3,288,479
Noncurrent liabilities:			
Due within one year:			
Compensated absences	208,006	28,440	236,446
Lease liabilities	29,631	7,612	37,243
Subscription liabilities	311,695	-	311,695
Bonds and loans payable	15,608,161	1,919,728	17,527,889
Other postemployment benefit obligations	446,280	-	446,280
Due in more than one year:			
Compensated absences	1,872,056	255,956	2,128,012
Lease liabilities	37,722	8,764	46,486
Subscription liabilities	1,157,160	-	1,157,160
Bonds and loans payable	12,999,969	7,534,533	20,534,502
Net pension liability	1,151,857	375,164	1,527,021
Other postemployment benefit obligations	8,439,142	-	8,439,142
Asset retirement obligation	209,150	-	209,150
Total liabilities	54,827,141	11,982,778	66,809,919
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pensions	3,790,545	508,322	4,298,867
Deferred inflows related to leases	405,978	-	405,978
Total deferred inflows of resources	4,196,523	508,322	4,704,845
NET POSITION			
Net investment in capital assets	135,784,203	53,529,638	189,313,841
Restricted for:			
Debt service and leases	16,155,635	1,938,424	18,094,059
Capital	7,373,288	-	7,373,288
Pension asset	12,487,427	1,014,355	13,501,782
Public safety	530,340	-	530,340
Transportation	2,083,979	-	2,083,979
Natural and economic environment	3,407,304	-	3,407,304
ARPA	40,345	-	40,345
Opioid	614,686	-	614,686
Unrestricted	(4,878,221)	13,452,516	8,574,295
Total net position	$ 173,598,986	$ 69,934,933	$ 243,533,919

The notes to the financial statements are an integral part of this statement.

City of Mount Vernon, Washington
Statement of Activities
For the year ended December 31, 2023

	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
					Primary Government		
Functions/Programs:	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental activities:							
General government	$ 8,916,963	$ 2,514,812	$ 1,945,266	$ -	$ (4,456,885)	$ -	$ (4,456,885)
Public safety	23,290,771	2,437,534	2,311,711	977,798	(17,563,728)	-	(17,563,728)
Transportation	7,816,930	528,072	699,685	1,219,755	(5,369,418)	-	(5,369,418)
Natural and economic environment	2,381,847	2,059,303	147,758	-	(174,786)	-	(174,786)
Social services	577,071	-	-	-	(577,071)	-	(577,071)
Culture and recreation	3,823,004	640,820	49,473	7,388,575	4,255,864	-	4,255,864
Interest on long-term debt	978,002	-	-	-	(978,002)	-	(978,002)
Total governmental activities	47,784,588	8,180,541	5,153,893	9,586,128	(24,864,026)	-	(24,864,026)
Business-type activities:							
Wastewater	11,239,834	9,840,020	128,380	682,740	-	(588,694)	(588,694)
Solid Waste	6,466,499	6,497,007	-	-	-	30,508	30,508
Surfacewater	3,008,055	3,360,982	107,435	378,079	-	838,441	838,441
Total business-type activities	20,714,388	19,698,009	235,815	1,060,819	-	280,255	280,255
Total primary government	$ 68,498,976	$ 27,878,550	$ 5,389,708	$ 10,646,947	(24,864,026)	280,255	(24,583,771)
General revenues:							
Property taxes					8,504,665	-	8,504,665
Sales taxes					11,210,050	-	11,210,050
Public safety sales taxes					3,266,918	-	3,266,918
Transportation benefit district sales taxes					2,345,586	-	2,345,586
Utility taxes					4,815,121	-	4,815,121
Real estate excise taxes					1,262,094	-	1,262,094
Other taxes and assessments					921,996	-	921,996
Investment earnings					1,138,558	92,643	1,231,201
Change in fair value of investments					830,318	222,364	1,052,682
Miscellaneous revenues					97,448	135,184	232,632
Transfers					-	-	-
Total general revenues					34,392,754	450,191	34,842,945
Change in net position					9,528,728	730,446	10,259,174
Net position - beginning					164,070,258	69,204,486	233,274,744
Net position - ending					$ 173,598,986	$ 69,934,933	$ 243,533,919

The notes to the financial statements are an integral part of this statement.

City of Mount Vernon, Washington
Balance Sheet Statement
Governmental Funds
As of December 31, 2023

	General Fund	ARPA Fund	Debt Service Fund	Capital Projects Fund	Total Governmental Funds
ASSETS					
Cash and cash equivalents	$ 3,632,770	$ 2,037,277	$ -	$ 1,433,970	$ 7,104,017
Investments	9,951,873	1,262,830	-	9,917,839	21,132,542
Receivables:					
Accounts (net of allowance for uncollectible)	3,082,205	-	-	297,325	3,379,530
Taxes	3,893,370	-	-	81,409	3,974,779
Grants	237,055	-	-	2,023,065	2,260,120
Interest	69,026	8,585	-	67,478	145,089
Leases	97,054	-	-	-	97,054
Due from other funds	28,056	-	-	-	28,056
Non-current receivables:					
Interlocal agreement	-	-	-	297,325	297,325
Leases	324,477	-	-	-	324,477
Prepaid items	39,442	-	-	-	39,442
Total Assets	$ 21,355,328	3,308,692	-	$ 14,118,411	$ 38,782,431
LIABILITIES					
Accounts payable	1,311,369	5,279	-	6,150,473	7,467,121
Accrued wages and benefits	1,279,959	12,439	-	-	1,292,398
Due to other funds	93,557	-	-	-	93,557
Interfund loans payable	126,905	-	-	-	126,905
Unearned revenue	37,850	3,250,629	-	-	3,288,479
Total Liabilities	2,849,640	3,268,347	-	6,150,473	12,268,460
DEFERRED INFLOWS of RESOURCES					
Unavailable revenue - receivables	2,479,131	-	-	594,650	3,073,781
Deferred inflows related to leases	405,978	-	-	-	405,978
Total Deferred Inflows of Resources	2,885,109	-	-	594,650	3,479,759
FUND BALANCES					
Nonspendable					
Prepaid items	39,442	-	-	-	39,442
Leases	15,553	-	-	-	15,553
Restricted					
Capital	-	-	-	7,373,288	7,373,288
Transportation	1,973,364	-	-	-	1,973,364
Paths and trails	110,615	-	-	-	110,615
Public safety	530,340	-	-	-	530,340
Natural and economic environment	600,895	-	-	-	600,895
Affordable Housing	1,775,357	-	-	-	1,775,357
Tourism	324,506	-	-	-	324,506
ARPA	-	40,345	-	-	40,345
Opioid	614,686	-	-	-	614,686
Committed					
Government access	666,201	-	-	-	666,201
Assigned					
Parks	931,958	-	-	-	931,958
Library	233,243	-	-	-	233,243
Transportation	484,233	-	-	-	484,233
Lincoln commerical block	82,178	-	-	-	82,178
Employee benefits	479,887	-	-	-	479,887
General fund operating reserve	4,754,253	-	-	-	4,754,253
Unassigned	2,003,868	-	-	-	2,003,868
Total Fund Balances	15,620,579	40,345	-	7,373,288	23,034,212
Total Liabilities, Deferred Inflows of Resources and Fund Balances	$ 21,355,328	$ 3,308,692	$ -	$ 14,118,411	$ 38,782,431

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 funds.	158,764,580
Other items related to pension and other post employment benefit activity that are not financial resources and, therefore, are not reported in the funds.	3,002,879
Deferred inflows related to unearned revenue that are not available in the current period and, therefore, are not reported in the funds.	3,073,781
Long-term liabilities, such as compensated absences, leases, and loans payable, are not due and payable in the current period and, therefore, are not reported in the funds.	(32,574,688)
Internal service funds are used by management to charge the costs of certain activities, such as facilities renewal and equipment repair, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position.	18,298,222
Net position of governmental activities	$ 173,598,986

The notes to the financial statements are an integral part of this statement.

City of Mount Vernon, Washington
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the year ended December 31, 2023

	General Fund	ARPA Fund	Debt Service Fund	Capital Projects Fund	Total Governmental Funds
REVENUES					
Property taxes	$ 8,491,850	$ -	$ -	$ -	$ 8,491,850
Sales taxes	11,210,050	-	-	-	11,210,050
Public safety sales taxes	3,266,918	-	-	-	3,266,918
Transportation benefit district sales taxes	2,345,586	-	-	-	2,345,586
Utility taxes	4,815,121	-	-	-	4,815,121
Real estate excise taxes	-	-	-	1,262,094	1,262,094
Other taxes and assessments	421,996	-	-	500,000	921,996
Licenses and permits	1,260,118	-	-	-	1,260,118
Intergovernmental	4,752,634	1,317,011	-	7,083,658	13,153,303
Charges for services	3,289,303	-	-	642,415	3,931,718
Fines and forfeitures	244,158	-	-	-	244,158
Rents and leases	646,259	-	-	4,800	651,059
Investment earnings	932,542	7,479	-	127,021	1,067,042
Change in fair value of investments	316,288	32,865	-	309,651	658,804
Contributions and donations	71,254	-	-	1,072,716	1,143,970
Miscellaneous revenues	4,284	-	-	39,068	43,352
Total revenues	42,068,361	1,357,355	-	11,041,423	54,467,139
EXPENDITURES					
Current:					
General government	5,945,049	396,155	-	6,053	6,347,257
Public safety	22,930,708	-	-	21,911	22,952,619
Transportation	4,643,503	-	-	429,779	5,073,282
Natural and economic environment	2,492,437	-	-	32,496	2,524,933
Social Services	577,071	-	-	-	577,071
Culture and recreation	3,753,736	44,402	-	-	3,798,138
Debt service:					
Principal	116,311	283,588	290,000	-	689,899
Interest and other debt costs	23,214	-	587,014	365,065	975,293
Capital outlay	2,492,498	441,569	-	31,608,689	34,542,756
Total expenditures	42,974,527	1,165,714	877,014	32,463,993	77,481,248
Excess (deficiency) of revenues over (under) expenditures	(906,166)	191,641	(877,014)	(21,422,570)	(23,014,109)
OTHER FINANCING SOURCES (USES)					
Transfers in	540,000	-	877,014	416,296	1,833,310
Transfers out	(415,000)	(151,296)	-	(1,417,014)	(1,983,310)
Debt proceeds	-	-	-	16,780,000	16,780,000
Leases	8,085	-	-	-	8,085
Total other financing sources (uses)	133,085	(151,296)	877,014	15,779,282	16,638,085
Net change in fund balances	(773,081)	40,345	-	(5,643,288)	(6,376,024)
Fund balances - beginning	16,393,660	-	-	13,016,576	29,410,236
Fund balances - ending	$ 15,620,579	$ 40,345	$ -	$ 7,373,288	$ 23,034,212

The notes to the financial statements are an integral part of this statement.

City of Mount Vernon, Washington
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance
of Governmental Funds
to the Statement of Activities
For the year ended December 31, 2023

Amounts reported for governmental activities in the statement of activities are different because:		
Net changes in fund balances for governmental funds		$ (6,376,024)
Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the current period.		31,009,689
Capital outlays	36,378,551	
Donated assets	371,377	
Other capital asset activity	-	
Depreciation and amortization	(5,740,239)	
Gain (Loss) on disposal of assets	-	
The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items.		(16,521,764)
Principal paid on loans	290,000	
Issuance of bonds	(1,700,000)	
Issuance of short-term loan	(15,080,000)	
Premium	23,161	
Accrued interest	(54,925)	
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		408,352
Deferred inflows	408,352	
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the government funds.		414,730
Compensated absences	(104,454)	
Pension obligation	2,200,939	
Other post employment benefit obligation	(215,201)	
Subscriptions	(1,475,335)	
Leases	24,938	
Asset retirement obligation	(16,157)	
Internal service funds are used by management to charge the costs of certain activities, such as facility maintenance, facility renewal and equipment repair to individual funds. The net (revenue) expense of certain activities of internal service funds is reported with governmental activities.		593,745
Change in net position of governmental activities		$ 9,528,728

The notes to the financial statements are an integral part of this statement.

City of Mount Vernon, Washington
Statement of Net Position
Proprietary Funds
For the year ended December 31, 2023

	Business-type Activities				Governmental Activities
	Wastewater	Solid Waste	Surfacewater	Total	Internal Service Funds
ASSETS					
Current Assets:					
Cash and cash equivalents	$ 3,804,782	$ 95,494	$ 1,503,948	$ 5,404,224	$ 4,987,530
Investments	5,899,142	48,601	1,262,830	7,210,573	5,566,034
Receivables:					
Accounts (net of allowance for uncollectible)	3,873,891	788,226	400,071	5,062,188	-
Interfund loan receivable	-	-	-	-	126,905
Grants	60,015	-	13,878	73,893	-
Interest	40,154	323	8,585	49,062	37,870
Due from other funds	-	-	93,557	93,557	-
Inventory	-	-	-	-	101,835
Prepaid items	15,491	13,831	3,873	33,195	-
	13,693,475	946,475	3,286,742	17,926,692	10,820,174
Noncurrent Assets:					
Capital Assets not Being Depreciated:				-	
Land	1,741,579	646,000	1,621,002	4,008,581	-
Construction in progress	2,418,395	-	191,655	2,610,050	829,522
Capital Assets Being Depreciated:					
Buildings	57,112,763	510,967	-	57,623,730	922,861
Other improvements	61,585,459	42,972	24,271,260	85,899,691	72,545
Machinery and equipment	1,344,148	356,921	483,832	2,184,901	20,909,291
Right-to-use leased assets	18,247	13,034	2,410	33,691	-
Less accumulated depreciation	(73,682,878)	(473,766)	(15,203,725)	(89,360,369)	(15,164,280)
Total Capital Assets (Net)	50,537,713	1,096,128	11,366,434	63,000,275	7,569,939
Pension asset	410,196	325,411	114,649	850,256	58,011
Total Noncurrent Assets	50,947,909	1,421,539	11,481,083	63,850,531	7,627,950
TOTAL ASSETS	64,641,384	2,368,014	14,767,825	81,777,223	18,448,124
DEFERRED OUTFLOWS of RESOURCES					
Deferred outflows related to pensions	326,546	259,051	91,269	676,866	46,181
TOTAL DEFERRED OUTFLOWS of RESOURCES	326,546	259,051	91,269	676,866	46,181
LIABILITIES					
Current liabilities:					
Accounts payable	1,264,706	214,357	155,679	1,634,742	85,478
Accrued wages and benefits	93,301	80,152	33,302	206,755	16,687
Accrued interest	11,078	6	-	11,084	-
Due to other funds	28,056	-	-	28,056	-
Total Current Liabilities	1,397,141	294,515	188,981	1,880,637	102,165
Noncurrent Liabilities:					
Due within one year:					
Compensated absences	13,741	12,288	2,411	28,440	3,364
Lease liabilities	4,271	2,852	489	7,612	-
Loans payable	1,919,728	-	-	1,919,728	-
Due in more than one year:					
Compensated absences	123,668	110,592	21,696	255,956	30,275
Lease liabilities	4,586	4,178	-	8,764	-
Net pension liability	180,994	143,583	50,587	375,164	25,597
Loans payable	7,534,533	-	-	7,534,533	-
Total Noncurrent Liabilities	9,781,521	273,493	75,183	10,130,197	59,236
TOTAL LIABILITIES	11,178,662	568,008	264,164	12,010,834	161,401
DEFERRED INFLOWS of RESOURCES					
Deferred inflows related to pensions	245,234	194,546	68,542	508,322	34,682
TOTAL DEFERRED INFLOWS of RESOURCES	245,234	194,546	68,542	508,322	34,682
NET POSITION					
Net Investment in Capital Assets	41,074,593	1,089,098	11,365,945	53,529,638	7,569,938
Restricted for:					
Debt service	1,935,077	2,858	489	1,938,424	-
Pension asset	489,364	388,215	136,776	1,014,355	69,207
Unrestricted	10,045,000	384,340	3,023,178	13,452,516	10,659,077
TOTAL NET POSITION	$ 53,544,034	$ 1,864,511	$ 14,526,388	$ 69,934,933	$ 18,298,222

The notes to the financial statements are an integral part of this statement.

City of Mount Vernon, Washington
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Funds
For the year ended December 31, 2023

	Business-type Activities				Governmental Activities
	Wastewater	Solid Waste	Surfacewater	Total	Internal Service Funds
Operating revenues:					
Charges for services	$ 9,840,020	$ 6,497,007	$ 3,360,982	$ 19,698,009	$ 3,116,148
Intergovernmental	128,380	-	107,435	235,815	768
Total operating revenues	9,968,400	6,497,007	3,468,417	19,933,824	3,116,916
Operating expenses:					
Operations and maintenance	6,787,335	5,649,699	2,268,455	14,705,489	1,281,062
Taxes	1,019,369	765,110	57,487	1,841,966	-
Depreciation	3,240,218	48,310	681,180	3,969,708	1,647,557
Amortization	5,296	3,249	928	9,473	-
Total operating expenses	11,052,218	6,466,368	3,008,050	20,526,636	2,928,619
Operating income (loss)	(1,083,818)	30,639	460,367	(592,812)	188,297
Non-operating revenues (expenses):					
Investment earnings	76,657	(177)	16,163	92,643	75,285
Change in fair value of investments	173,728	9,271	39,365	222,364	171,514
Interest expense	(187,616)	(131)	(4)	(187,751)	-
Gain(loss) on disposal of property	-	-	-	-	8,649
Other non-operating	139,655	(4,357)	(114)	135,184	-
Total non-operating revenue (expenses)	202,424	4,606	55,410	262,440	255,448
Income (loss) before capital contributions and transfers	(881,394)	35,245	515,777	(330,372)	443,745
Capital contributions	682,740	-	378,079	1,060,819	-
Transfers in	-	-	-	-	150,000
Transfers out	-	-	-	-	-
Changes in net position	(198,654)	35,245	893,856	730,447	593,745
Net position - beginning	53,742,688	1,829,266	13,632,532	69,204,486	17,704,477
Net position - ending	$ 53,544,034	$ 1,864,511	$ 14,526,388	$ 69,934,933	$ 18,298,222

The notes to the financial statements are an integral part of this statement.

City of Mount Vernon, Washington
Statement of Cash Flows
Proprietary Funds
For the year ended December 31, 2023

	Business-type Activities				Governmental Activities
	Wastewater	Solid Waste	Surfacewater	Totals	Internal Service Funds
CASH FLOWS from OPERATING ACTIVITIES					
Cash received from:					
Customers	$ 9,942,036	$ 6,466,014	3,327,743	$ 19,735,793	$ 4,650
Interfund services provided	57,343	-	-	57,343	3,116,148
Other governments	124,467	-	118,557	243,024	768
Cash payments to:					
Suppliers for goods and services	(2,518,708)	(2,831,639)	(489,336)	(5,839,683)	(938,820)
Interfund services used	(1,892,519)	(1,366,226)	(1,287,255)	(4,546,000)	(230,626)
Employees	(1,472,355)	(1,264,262)	(400,262)	(3,136,879)	(130,354)
Other governments	(1,019,369)	(765,110)	(57,487)	(1,841,966)	-
Net cash provided (used) by operating activities	3,220,895	238,777	1,211,960	4,671,632	1,821,766
CASH FLOWS from NONCAPITAL FINANCING ACTIVITIES					
Operating subsidies and transfers from other funds	-	-	-	-	150,000
Operating subsidies and transfers to other funds	-	-	-	-	-
Net cash provided (used) by noncapital financing activities	-	-	-	-	150,000
CASH FLOWS from CAPITAL and RELATED FINANCING ACTIVITIES					
Proceeds from:					
Capital contributions	353,166	-	-	353,166	-
Sale of capital assets	-	-	-	-	8,649
Interfund loans	-	-	-	-	61,592
Payments for:					
Capital assets	(1,839,932)	(233,687)	(656,050)	(2,729,669)	(1,093,844)
Princpal and interest payments	(2,141,457)	(125)	(4)	(2,141,586)	-
Net cash provided (used) by capital related financing activities	(3,628,223)	(233,812)	(656,054)	(4,518,089)	(1,023,603)
CASH FLOWS from INVESTING ACTIVITIES					
Investment sales/maturities	957,000	7,700	204,600	1,169,300	902,550
Investment purchase	(947,074)	(7,620)	(202,478)	(1,157,172)	(893,188)
Interest on investments	71,520	575	15,290	87,385	67,451
Net cash provided by investing activities	81,446	655	17,412	99,513	76,813
Net increase (decrease) in cash and cash equivalents	(325,882)	5,620	573,318	253,056	1,024,976
Balances - beginning of the year	4,130,663	89,874	930,630	5,151,167	3,962,554
Balances - end of the year	$ 3,804,781	$ 95,494	1,503,948	$ 5,404,223	$ 4,987,530

	Business-type Activities				Governmental Activities
	Wastewater	Solid Waste	Surfacewater	Totals	Internal Service Funds
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:					
Operating income (loss)	$ (1,083,818)	$ 30,639	$ 460,367	$ (592,812)	$ 188,297
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation & amortiztation expense	3,240,218	48,310	681,180	3,969,708	1,647,557
(Increase) decrease in receivables	155,446	30,993	115,674	302,113	4,650
(Increase) decrease in inventory	-	-	-	-	(37,008)
(Increase) decrease in prepaid items	(452)	403	113	64	-
(Decrease) increase in accounts payable	1,111,206	(27,837)	(95,759)	987,610	79,153
Decrease (increase) in employee benefits	(201,705)	156,269	50,385	4,949	(60,883)
Total Adjustments	4,304,713	208,138	751,593	5,264,444	1,633,469
Net cash provided (used) by operating activities	$ 3,220,895	$ 238,777	$ 1,211,960	$ 4,671,632	$ 1,821,766
Noncash Investing, Capital, and Financing Activities					
Contributions of capital assets	329,574	-	378,079	707,653	-
Changes in valuations in investments	(41,688)	(133,568)	(371,670)	(546,926)	(163,966)

The notes to the financial statements are an integral part of this statement.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

A. Reporting entity

The City of Mount Vernon (City) 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's major operations include public safety, street maintenance, parks and recreation, planning and zoning, permits and inspection, and general administrative. The City also operates wastewater, solid waste, and surface water management systems.

The accompanying financial statements present the government entities for which the government is considered to be financially accountable.

B. 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 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. The City reports no fiduciary funds at this time. 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:

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. Managerial funds rolled into this fund for financial statement purposes are: City Street Fund, Arterial Street Fund, Park Fund, Library Fund, Paths and Trails Reserve Fund, Tourism Promotion Fund, Little Mountain Improvement Fund, Crime Prevention Fund, Government Access Fund, Criminal Justice Assistance Fund, Municipal Arts Fund, Parks Capital Reserve Fund, Transportation Benefit District Fund, Fiber Optics Fund, Critical Area Enhancement Fund, Lincoln Commercial Block Fund, Affordable & Supportive Housing Fund, Affordable Housing Sales & Use Tax Fund, LEOFF 1 Healthcare Insurance Reserve Fund, Fireman's Pension Fund, Hillcrest Deposit Account Fund, Developer Deposits Fund, Court Assessment and Bail Fund, Miscellaneous Suspense Fund, and the Mount Vernon School Impact Fees Fund.

ARPA Fund is a separate special revenue fund that the City established to account for the funding received from the Coronavirus Local Fiscal Recovery Fund (CLFRF) which was established by the American Rescue Plan Act (ARPA). These funds can be used to support public health expenditures, address negative economic impacts caused by the public health emergency, replace lost public sector revenue, provide premium pay for essential workers and to invest in water, sewer, and broadband infrastructure. Funds must be obligated by December 31, 2024, and expended by December 31, 2026.

Debt Service Fund is used to account for the accumulation of funds for the payment of principal and interest on long-term obligations of governmental funds. The fund receives transfers from the Capital Projects Fund to pay principal and interest on outstanding debt.

Capital Projects Fund is used to account for financial resources used for the acquisition or construction of major capital projects, other than those financed by proprietary funds. Major categories of projects include roadways, pedestrian pathways, and parks. Managerial funds rolled into this fund for financial statement purposes are: Library Commons Project Fund, Capital Improvements REET 1 Fund, Fire Station Projects Fund, Parks Impact Fees Fund, Fire Impact Fees Fund, Transportation Impact Fees Fund, REET 2 – Streets Fund, College Way at I-5 Improvement Fund, Downtown & Waterfront Area Fund, and Public Works Facility Capital 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.

Surface Water Utility Fund accounts for the operation, construction, and maintenance of the City's storm water system.

Additionally, the government reports the following fund types:

Internal Service Funds which account for the maintenance and replacement of the City owned vehicles, equipment, and facilities.

Managerial Funds which account for the activities of various funds who no longer meet the criteria to be categorized as a Custodial Fund, as per the implementation of GASB 84. These funds are rolled into the general fund on the financial statements. The rollup of these funds are noted above in the major fund descriptions.

C. 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 and fiduciary funds 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 property tax 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 Surface Water 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.

D. 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. 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.

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 are 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.

E. Assets, liabilities, deferred outflows/inflows of resources, and fund balances / net position

Cash, Cash Equivalents, and Investments (Note 3)

It is the City's practice to invest temporary cash surpluses. 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. 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.

Receivables and Payables (Note 4, Note 9)

Taxes receivable consists of property and sales taxes receivable and related interest and penalties. *Grants receivable* consist of amounts owed for expenditures spent during the year on grant related activity. *Interest receivable* consists of amounts earned on investments at the end of the year. *Non-current receivable* consists of a long-term receivable for an interlocal agreement the City has with Skagit County Diking District No. 3 for conveyance of certain flood elements since the flood wall capital project has been completed. The agreement states that the Dike district agrees to pay the City $2,189,299.36, and thru 2023 the city has received payments totaling $1,605,350.32 million. The remainder would be paid over the next two years in installments of $297,324.84 each. *Accrued interest payable* consists of amounts owed on notes, loans, and contracts in the subsequent year. *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. 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 which is representative of normal operating activities at the end of the fiscal year are referred to as *Due to/Due from*. Activity between funds which is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as interfund *loans receivable/payable*. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as *internal balances*.

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 and Prepaid Items

Inventory consists 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 an expenditure in the period in which they are actually consumed.

Capital Assets and Depreciation (Note 5)

Capital assets, which include buildings and other improvements, machinery and 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. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Right-to-use and subscription assets financed by long-term leases do not follow the capitalization threshold and are recorded at the present value of lease payments. 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.

Land, construction in progress, and works of art are not depreciated. The City has five sculptures capitalized as art. Art and historical treasures are expected to be maintained or enhanced over time and thus, are not depreciated. Buildings and other improvements, infrastructure and machinery 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
Right-to-Use Leased Assets	2 – 5
Subscription Assets	2 – 5

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.

Leases (Note 10)

The lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources.

Leases are defined as the right-to-use an underlying asset. In 2023, the City did not have a minimum lease receivable and lease liability threshold, therefore each lease that qualified as, a non-short term, GASB 87 lease, were recorded at the present value of lease payments.

As a lessee, the City recognizes a lease liability and an intangible right-to-use lease asset in the government-wide and proprietary fund financial statements. Governmental funds recognize a capital outlay and other financing source. The City measures the initial lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. Lease payments in governmental funds are reported as debt service principal and interest expenditures. The lease asset is measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. The lease asset is amortized using the straight-line method over the shorter of the lease term or the useful life of the asset. Key estimates related to measuring the lease liability and asset include the discount rate used to discount the expected lease payments to present value, the lease term, and the lease payments.

- The City uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the City generally uses its incremental borrowing rate as the discount rate for leases.
- The lease term includes the non-cancelable period of the lease.
- Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option prices that the City is reasonably certain to exercise.

As a lessor, the City recognizes a lease receivable and a deferred inflow of resources in the government-wide and fund financial statements. The City measures the initial lease receivable at the present value of payments expected to be received during the lease term. Subsequently, the lease receivable is reduced by the principal portion of lease payments received. The deferred inflow of resources is measured as the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date. The deferred inflow of resources is recognized as revenue over the life of the lease term using the straight-line method.

Key estimates related to measuring the lease receivable and deferred inflow of resources include the discount rate used to discount the expected lease payments to present value, the lease term, and the lease payments.

- The City uses its estimated incremental borrowing rate as the discount rate for leases where the City is the lessor.
- The lease term includes the non-cancelable period of the lease. Lease receipts included in the measurement of the lease liability are composed of fixed payments from the lessee.

The City monitors changes in circumstances that would require a remeasurement of its leases and will remeasure the lease asset and liability, or lease receivable and deferred inflow of resources, if certain changes occur that are expected to significantly affect the amount of the lease liability or receivable.

For lease contracts that are short-term, the City recognizes lease payments as revenue based on the payment provisions of the lease contract. Liabilities are only recognized if payments are received in advance, and receivables are only recognized if payments are received subsequent to the reporting period.

Subscription Based Information Technology Arrangements (SBITA) (Note 11)

The City has a variety of subscription based information technology arrangements (SBITA). The City recognizes the right to use an intangible asset and a corresponding subscription liability. The subscription liability is recognized at the commencement of the subscription term, which is when the subscription asset is placed into service. The subscription liability should be initially measured at the present value of subscription payments to be made during the subscription term. Future subscription payments should be discounted using the interest rate the SBITA vendor charges the government, which may be implicit, or the government's incremental borrowing rate if the interest rate is not readily determinable. The subscription asset is initially measured as the sum of the initial subscription liability amount, payments made to the SBITA vendor before commencement of the subscription term, and capitalizable implementation costs, less any incentives received from the SBITA vendor at or before the commencement of the subscription term. The City recognizes amortization of the subscription asset as an outflow of resources over the subscription term.

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.

Deferred Inflows/ Outflows of Resources

Deferred outflows of resources represent a consumption of net assets that applies to a future period and will not be recognized as an outflow of resources (as either an expense or expenditure) until that period. Deferred inflows of resources represent an acquisition of net assets that applies to a future period and that will not be recognized as an inflow of resources (revenue) until that period.

The City's has deferred outflows of resources related to pensions, post-employment benefit obligations, and asset retirement obligations. The City has deferred inflows of resources related to leases and unavailable revenue. The unavailable revenue is recognized as receivables but not revenues in governmental funds because the revenue recognition criterion (availability) has not been met.

Pensions (Note 6)

For purposes of measuring the net pension liability, net pension asset, 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.

For purposes of calculating the restricted net position related to the net pension asset, the City includes the net pension asset and the related deferred outflows and deferred inflows.

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

Other Post-Employment Benefits (Note 7)

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.

Short-term Debt (Note 12)

Short-term debt, also called current liabilities, are the City's financial obligations which are expected to be paid off within a year. These are presented on the government-wide and proprietary fund statements as noncurrent liabilities, due within one year, and include liabilities for compensated absences, leases, subscriptions, bonds and loans payable, and other postemployment benefits payable.

Long-term Liabilities (Note 13)

Long-term liabilities are the City's financial obligations which are due more than one year in the future. These are presented in the government-wide and proprietary 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.

Net Position and Fund Balances

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. The government-wide and business type fund financial statements utilize a net position presentation.

> *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.
>
> *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.
>
> *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.

Fund Balances are reported in five classifications: nonspendable, restricted, committed, assigned, or unassigned. *Nonspendable fund balances* are those not in a spendable form (such as inventories, long-term receivables, leases) or subject to legal/contractual requirements to be maintained intact. *Nonspendable leases* are the portion of fund balance that is not an available resource because it represents the year-end balance of the lease receivable in excess of the deferred inflow of resources for the lease receivable, which is not a spendable resource. *Restricted fund balances* are subject to limitations imposed by external sources such as creditors, grantors, laws, or regulations. *Committed fund balances* are designated for specific purposes through formal action of the government's highest level of decision-making authority (City Council). *Assigned fund balances* reflect the government's intent to be used for specific purposes but are neither restricted nor committed. *Unassigned fund balance* is not restricted, committed, or assigned to a specific purpose within the General Fund.

Flow Assumption defines how the City applies expenditures to the appropriate fund balances and in what order. 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.

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

The City maintains the following reserves and minimum fund balance policies:

General Fund

General Fund operating reserve maintains a target reserve of 15% of total operating budget, excluding identified one-time revenues.

Street operating reserve maintains a reserve of 10% of total operating budget, excluding one-time revenues. Target reserve is set at 15%.

Parks and recreation operating reserve maintains a reserve of 10% of total operating budget, excluding one-time revenues. Target reserve is set at 15%.

Library operating reserve maintains a reserve of 10% of total operating budget, excluding one-time revenues. Target reserve is set at 15%.

Equipment Replacement and Reserve Fund

The Equipment Replacement and Reserve Fund is utilized to set aside the necessary resources to finance scheduled vehicle and equipment replacement for the operational needs of the City. The City ensures proper funding with regularly scheduled payments from funds and departments that use these services.

NOTE 3: DEPOSITS AND INVESTMENTS

A. Deposits

Cash on hand at December 31, 2023 was $23,600. The carrying amount of the City's deposits in the bank was $19,081,800.

Custodial Credit Risk is the risk associated with the failure of a depository financial institution. In the event of a depository financial institution's failure, it is the risk that the City would not be able to recover its deposits or collateralized securities that are in the possession of outside parties.

The City minimizes custodial credit risk by adhering to restrictions set forth in state law. Statues require cities to deposit funds into financial institutions that are physically located in Washington, unless otherwise expressly permitted by statue and authorized by the Washington Public Deposit Protection Commission (PDPC). The PDPC, established under chapter 39.58 of the Revised Code of Washington (RCW), makes and enforces regulations and administers a collateral pool program to ensure public funds are protected, if a financial institution becomes insolvent. Securities pledged are held by a trustee agent for the benefit of the collateral pool.

As of December 31, 2023, all of the City's deposits with financial institutions were insured or collateralized. The City's deposits in financial institutions are entirely covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institutions collateral pool administered by the PDPC.

B. 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.

Investments in Local Government Investment Pool (LGIP) - The City is a participant in the Local Government Investment Pool. LGIP was authorized by Chapter 294, Laws of 1986, and is managed and operated by the Washington State Treasurer. The State Finance Committee is the administrator of the statute that created the pool and adopts rules. The State Treasurer is responsible for establishing the investment policy for the pool and reviews the policy annually and proposed changes are reviewed by the LGIP advisory committee.

Investments in the LGIP, a qualified external investment pool, are reported at amortized cost which approximates fair value. The LGIP is an unrated external investment pool. The pool portfolio is invested in a manner that meets the maturity, quality, diversification and liquidity requirements set forth by GASB 79 for external investment pools that elect to measure, for financial reporting purposes, investments at amortized cost. The LGIP does not have any legally binding guarantees of share values. The LGIP does not impose liquidity fees or redemption gates on participant withdrawals.

The Office of the State Treasurer prepares a stand-alone LGIP financial report. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0020, online at http://www.tre.wa.gov.

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, 2023 the City had the following investments measured at fair value:

		Fair Value Measurement Using		
Investment Type	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Federal Agricultural Mortgage Corporation	$ 978,035	$ -	$ 978,035	$ -
Federal Farm Credit Bank	11,558,532	-	11,558,532	-
Federal National Mortgage Association	2,867,825	-	2,867,825	-
Federal Home Loan Bank	7,493,394	-	7,493,394	-
Federal Home Loan Mortgage Corporation	1,803,969	-	1,803,969	-
Stripped Treasury Note	5,336,458	-	5,336,458	-
US Treasury Strip	3,870,936	-	3,870,936	-
Total investments	$ 33,909,149	$ -	$ 33,909,149	$ -

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 (In Years)	
Investment Type	Fair Value	Less than 1	1 to 5
Federal Agricultural Mortgage Corporation	$ 978,035	$ 978,035	$ -
Federal Farm Credit Bank	11,558,532	1,912,766	9,645,766
Federal National Mortgage Association	2,867,825	-	2,867,825
Federal Home Loan Bank	7,493,394	995,821	6,497,573
Resolution FDG Corp Strip	1,803,969	-	1,803,969
Stripped Treasury Note	5,336,458	977,500	4,358,958
US Treasury Strip	3,870,936	1,062,871	2,808,065
State of Washington Local Government Investment Pool	11,906,799	11,906,799	-
	$ 45,815,948	$ 17,833,792	$ 27,982,156

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 fair value.

NOTE 4: PROPERTY TAXES

The County Treasurer acts as an agent to collect property tax levied in the county for all taxing authorities.

A. 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 tax is recorded as a receivable and revenue when levied. Property tax collected in advance for the fiscal year to which it applies is recorded as a deferred inflow and recognized as revenue of the period to which it applies. No allowance for uncollectible taxes is established because delinquent taxes are considered fully collectible. Prior year tax levies were recorded using the same principle, and delinquent taxes are evaluated annually.

The City may levy up to $3.600 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 2023 was $1.5631 per $1,000 on an assessed valuation of $5,457,245,121 for a total regular levy of $8,530,277.

NOTE 5: CAPITAL ASSETS

Minor gains or losses occasionally occur on disposal of capital assets. When such minor gains or losses occur, the City reports them as miscellaneous revenues if they are gains or rolled into the function of the government-wide statements if they are losses.

A. Capital assets – Governmental Activities

	Balance 1/1/2023	Increases	Decreases	Balance 12/31/2023
Governmental activities:				
Capital assets, not being depreciated:				
Land	$ 34,279,803	$ 162,182	$ -	$ 34,441,985
Art	146,341	-	-	146,341
Construction in progress	12,093,536	32,509,869	(1,006,000)	43,597,405
Total capital assets, not being depreciated	46,519,680	32,672,051	(1,006,000)	78,185,731
Capital assets, being depreciated:				
Buildings	17,196,543	861,730	-	18,058,273
Other improvements	36,106,276	301,931	-	36,408,207
Machinery and equipment	23,435,682	1,066,108	(71,453)	24,430,337
Infrastructure	100,082,490	2,089,736	-	102,172,226
Total capital assets, being depreciated	176,820,991	4,319,505	(71,453)	181,069,043
Less accumulated depreciation for:				
Buildings	(11,022,933)	(553,025)	-	(11,575,958)
Other improvements	(8,385,325)	(1,211,849)	-	(9,597,174)
Machinery and equipment	(15,587,101)	(1,899,963)	71,453	(17,415,611)
Infrastructure	(52,551,470)	(3,313,963)	-	(55,865,433)
Total accumulated depreciation	(87,546,829)	(6,978,800)	71,453	(94,454,176)
Total capital assets, being depreciated, net	89,274,162	(2,659,295)	-	86,614,867
Capital assets, being amortized:				
Right-to-use leased assets	126,083	8,085	(7,962)	126,206
Subscription assets	-	1,842,359	-	1,842,359
Total capital assets, being amortized	126,083	1,850,444	(7,962)	1,968,565
Less accumulated amortization for:				
Right-to-use leased assets	(33,610)	(33,187)	7,962	(58,835)
Subscription assets	-	(375,809)	-	(375,809)
Total accumulated amortization	(33,610)	(408,996)	7,962	(434,644)
Total capital assets, being amortized, net	92,473	1,441,448	-	1,533,921
Governmental activities capital assets, net	$ 135,886,315	$ 31,454,204	$ (1,006,000)	$ 166,334,519

Depreciation expense was charged to the functions of the primary government as follows:

Governmental activities:	
General government	$ 1,784,081
Public safety	794,863
Transportation	3,673,014
Natural and economic environment	167,223
Culture and recreation	559,619
Total depreciation expense - governmental activities	$ 6,978,800

Amortization expense was charged to the functions of the primary government as follows:

Governmental activities:		
General government	$	305,462
Public safety		100,654
Transportation		-
Natural and economic environment		-
Culture and recreation		2,880
Total amortization expense - governmental activities	$	408,996

B. Capital assets – Business-type Activities

	Balance 1/1/2023	Increases	Decreases	Balance 12/31/2023
Business-type activities:				
Capital assets, not being depreciated:				
Land	$ 3,903,006	$ 105,575	$ -	$ 4,008,581
Art	-	-	-	-
Construction in progress	2,239,888	1,510,895	(1,140,733)	2,610,050
Total capital assets, not being depreciated	6,142,894	1,616,470	(1,140,733)	6,618,631
Capital assets, being depreciated:				
Buildings	57,453,968	169,762		57,623,730
Other improvements	84,003,733	1,895,958		85,899,691
Machinery and equipment	1,598,054	586,847		2,184,901
Total capital assets, being depreciated	143,055,755	2,652,567	-	145,708,322
Less accumulated depreciation for:				
Buildings	(31,749,205)	(1,391,062)	-	(33,140,267)
Other improvements	(52,659,183)	(2,472,868)	-	(55,132,051)
Machinery and equipment	(965,195)	(105,778)	-	(1,070,973)
Total accumulated depreciation	(85,373,583)	(3,969,708)	-	(89,343,291)
Total capital assets, being depreciated, net	57,682,172	(1,317,141)	-	56,365,031
Capital assets, being amortized:				
Right-to-use leased assets	37,135		(3,444)	33,691
Subscription assets	-	-		-
Total capital assets, being amortized	37,135	-	(3,444)	33,691
Less accumulated amortization for:				
Right-to-use leased assets	(11,049)	(9,473)	3,444	(17,078)
Subscription assets	-	-	-	-
Total accumulated amortization	(11,049)	(9,473)	3,444	(17,078)
Total capital assets, being amortized, net	26,086	(9,473)	-	16,613
Business-type activities capital assets, net	$ 63,851,152	$ 289,856	$ (1,140,733)	$ 63,000,275

Depreciation expense was charged to the Business-type functions as follows:

Business-type activities:		
Wastewater	$	3,240,218
Solid Waste		48,310
Surfacewater		681,180
Total depreciation expense - business type activities	$	3,969,708

Amortization expense was charged to the functions of the business-type functions as follows:

Business-type activities:		
Wastewater	$	5,296
Solid Waste		3,249
Surfacewater		928
Total amortization expense - business type activities	$	9,473

NOTE 6: PENSION PLANS

The following table represents the aggregate pension amounts for all plans for the year 2023:

AGGREGATE PENSION AMOUNTS: PERS & LEOFF PLANS	
Pension liabilities	$ (1,514,592)
Pension assets	10,910,632
Deferred outflows of resources	7,267,967
Deferred inflows of resources	(4,298,867)
Pension expense/expenditures	(570,392)

State Sponsored Pension Plans: Substantially all City's 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 annual comprehensive financial report (ACFR) that includes financial statements and required supplementary information for each plan.

The DRS ACFR may be downloaded from the DRS website at www.drs.wa.gov.

A. Public Employees' Retirement System (PERS)

PERS members include elected officials; state employees; employees of local governments; and higher education employees not participating in higher education retirement programs.

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

PERS PLAN 1 provides retirement, disability and death benefits. Retirement benefits are determined as 2% 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. PERS Plan 1 retirement benefits are actuarially reduced if a survivor benefit is chosen. Members retiring from active status prior to the age of 65 may also receive actuarially reduced benefits. Other benefits include an optional cost-of-living adjustment (COLA). 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%. The employer contribution rate is developed by the Office of the State Actuary, adopted by the Pension Funding Council and is subject to change by the legislature. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2023 were as follows:

PERS PLAN 1: Actual Contribution Rates

	Employer			Employee *
	01/2023-06/2023	07/2023-08/2023	09/2023-12/2023	
PERS PLAN 1	6.36%	6.36%	6.36%	6.00%
PERS PLAN 1 UAAL	3.85%	2.85%	2.97%	-
Administrative Fee	0.18%	0.18%	0.20%	-
Total	10.39%	9.39%	9.53%	6.00%

* For employees participating in JBM, the contribution rate was 12.26%

PERS PLAN 2/3 provides retirement, disability and death benefits. Retirement benefits are determined as 2% of the member's AFC times the member's years of service for Plan 2 and 1% of AFC for Plan 3. The AFC is the average of the member's 60 highest-paid consecutive service months. 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 retirement benefits are actuarially reduced if a survivor benefit is chosen. Other PERS Plan 2/3 benefits include a COLA based on the CPI, capped at 3% annually. 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. Members are eligible to withdraw their defined contributions upon separation. Members have multiple withdrawal options, including purchase of an annuity. PERS Plan 3 members are immediately vested in the defined contribution portion of their plan.

Contributions: 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 rates are adopted by the Pension Funding Council, and are subject to change by the Legislature. The employer rate includes a component to address the PERS Plan 1 Unfunded Actuarial Accrued Liability (UAAL).

As established by Chapter 41.34 RCW, Plan 3 defined contribution rates are set at a minimum of 5% and a maximum of 15%. PERS Plan 3 members choose their contribution rate from six options when joining membership and can change rates only when changing employers. Employers do not contribute to the defined contribution benefits.

The PERS Plan 2/3 defined benefit required contribution rates (expressed as a percentage of covered payroll) for 2023 were as follows:

PERS PLAN 2/3: Actual Contribution Rates

	Employer			Employee 2*	Employee 3**.
	01/2023-06/2023	07/2023-08/2023	09/2023-12/2023		
PERS PLAN 2/3	6.36%	6.36%	6.36%	6.36%	Varies
PERS PLAN 1 UAAL	3.85%	2.85%	2.97%	-	-
Administrative Fee	0.18%	0.18%	0.20%	-	-
Total	10.39%	9.39%	9.53%	6.36%	Varies

* For employees participating in JBM, the contribution rate was 15.90%

** For employees participating in JBM, the minimum contribution rate was 7.50%

The City's actual PERS plan contributions were $419,326 to PERS Plan 1 and $771,640 to PERS Plan 2/3 for the year ended December 31, 2023.

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

LEOFF was established in 1970, and its retirement benefit provisions are contained in Chapter 41.26 RCW. LEOFF membership includes all of the state's full-time, fully compensated, local law enforcement commissioned officers, fire fighters and, as of July 24, 2005, emergency medical technicians.

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-paid consecutive 24 months 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 a COLA. 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 0%, as long as the plan remains fully funded. The LEOFF Plan I had no required employer or employee contributions for fiscal year 2023. Employers paid only the administrative expense of 0.20% of covered payroll.

LEOFF PLAN 2 provides retirement, disability and death benefits. Retirement benefits are determined as 2% of the FAS per year of service (the FAS is based on the highest-paid 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 – 52, the reduction is 3% 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 a COLA (based on the CPI), capped at 3% annually. 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 rates are adopted by the LEOFF Plan 2 Retirement Board and are subject to change by the Legislature.

Effective July 1, 2017, when a LEOFF employer charges a fee or recovers costs for services rendered by a LEOFF 2 member to a non-LEOFF employer, the LEOFF employer must cover both the employer and state contributions on the LEOFF 2 basic salary earned for those services. The state contribution rate (expressed as a percentage of covered payroll) was 3.41% in 2023.

The LEOFF Plan 2 required contribution rates (expressed as a percentage of covered payroll) for 2023 were as follows:

LEOFF PLAN 2: Actual Contribution Rates

	Employer		Employee
	01/2023-08/2023	09/2023-12/2023	
LEOFF PLAN 2	5.12%	5.12%	8.53%
Administrative Fee	0.18%	0.20%	0
Total	5.30%	5.32%	8.53%

The City's actual contributions to the plan were $585,045 for the year ended December 31, 2023.

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 Office of the State Actuary 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, 2023, the state contributed $87,966,142 to LEOFF Plan 2. The amount recognized by the City as its proportionate share of this amount is $367,929.

Actuarial Assumptions: The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2023 with a valuation date of June 30, 2022. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2013-2018 Demographic Experience Study* and the *2021 Economic Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2022 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2023. Plan liabilities were rolled forward from June 30, 2022, to June 30, 2023, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 2.75% total economic inflation; 3.25% salary inflation
- **Salary increases:** In addition to the base 3.25% salary inflation assumption, salaries are also expected to grow by service-based salary increase.
- **Investment rate of return:** 7.00%

Mortality rates were developed using the Society of Actuaries' Pub. H-2010 mortality rates, which vary by member status (e.g. active, retiree, or survivor), as the base table. OSA applied age offsets for each system, as appropriate, to better tailor the mortality rates to the demographics of each plan. OSA applied the long-term MP-2017 generational improvement scale, also developed by the Society of Actuaries, to project mortality rates for every year after the 2010 base table. 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.

Methods did not change from the prior contribution rate setting June 30, 2021 Actuarial Valuation Report (AVR). OSA did make an assumption change to adjust TRS Plan 1 assets, LEOFF Plan 1/2 assets, and LEOFF participant data to reflect certain material changes occurring after the June 30, 2022 measurement date.

Discount Rate: The discount rate used to measure the total pension liability for all DRS plans was 7.0%.

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. Based on OSA's 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 7.0% 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 7.0% was determined using a building-block-method. In selecting this assumption, OSA reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered Capital Market Assumptions (CMAs) and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB 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: The table below summarizes the 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, 2023. The inflation component used to create the table is 2.2% 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%	1.50%
Tangible Assets	7%	4.70%
Real Estate	18%	5.40%
Global Equity	32%	5.90%
Private Equity	23%	8.90%
	100%	

Sensitivity of the 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%, 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%) or 1-percentage point higher (8%) than the current rate.

	1% Decrease (6.00%)	Current Discount	1% Increase (8.00)%
PERS 1	$ 2,116,000	$ 1,514,592	$ 989,705
PERS 2/3	3,733,370	(3,432,606)	(9,319,909)
LEOFF 1	(1,201,847)	(1,355,437)	(1,488,601)
LEOFF 2	1,013,735	(6,122,589)	(11,963,058)

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, 2023, the City reported its proportionate share of the net pension liabilities and assets as follows:

	Liability (Asset)
PERS 1	1,514,592
PERS 2/3	(3,432,606)
LEOFF 1	(1,355,437)
LEOFF 2	(6,122,589)

The amount of the asset reported above for LEOFF Plans 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 asset, the related State support, and the total portion of the net pension asset that was associated with the City were as follows:

	LEOFF 1	LEOFF 2
City's proportionate share of the net pension	(1,355,437)	(6,122,589)
State's proportionate share of the net pension liability/(asset) associated with the City	(9,168,144)	(3,909,823)
Total	$ (10,523,581)	$ (10,032,412)

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

	PERS 1	PERS 2/3	LEOFF 1	LEOFF 2
6/30/2022	0.063570%	0.081115%	0.045540%	0.259376%
6/30/2023	0.066350%	0.083749%	0.045668%	0.255257%
Change in proportion	0.002780%	0.002634%	0.000128%	-0.004119%

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30, 2023 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 2023. Historical data was obtained from a 2011 study by the Office of the State Actuary (OSA). 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 2023, the state of Washington contributed 39% of LEOFF 2 employer contributions pursuant to RCW 41.26.725 and all other employers contributed the remaining 61% of employer contributions.

Pension Expense: For the year ended December 31, 2023, the City recognized pension expense as follows:

	PERS 1	PERS 2/3	LEOFF 1	LEOFF 2
Pension Expense	$ 71,022	$ (449,315)	$ (122,311)	$ (69,788)

Deferred Outflows of Resources and Deferred Inflows of Resources: At December 31, 2023, the City's reported deferred outflows of resources and deferred inflows of resources related to pensions from the following:

	Deferred outflow of resources			
	PERS 1	PERS 2/3	LEOFF 1	LEOFF 2
Differences between expected and actual experience	$ -	$ 699,218	$ -	$ 2,500,904
Net difference between projected and actual investment earnings on pension plan investments	-	-	-	-
Changes of assumptions	-	1,441,127	-	1,563,993
Changes in proportion and differences between contributions and proportionate share of contributions	-	12,991	-	168,531
Contributions subsequent to the measurement date	188,804	390,466	-	301,933
Total	$ 188,804	$ 2,543,802	$ -	$ 4,535,361

	Deferred inflow of resources			
	PERS 1	PERS 2/3	LEOFF 1	LEOFF 2
Differences between expected and actual experience	$ -	$ (38,353)	$ -	$ (50,372)
Net difference between projected and actual investment earnings on pension plan investments	(170,853)	(1,293,613)	(89,878)	(1,295,526)
Changes of assumptions	-	(314,109)	-	(502,922)
Changes in proportion and differences between contributions and proportionate share of contributions	-	(235,240)	-	(308,001)
Contributions subsequent to the measurement date	-	-	-	-
Total	$ (170,853)	$ (1,881,315)	$ (89,878)	$ (2,156,821)

Deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2023. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	PERS 1	PERS 2/3	LEOFF 1	LEOFF 2
2024	$ (116,241)	$ (660,204)	$ (61,624)	$ (534,276)
2025	(146,187)	(795,239)	(77,329)	(743,487)
2026	90,136	1,016,267	47,970	1,100,032
2027	1,439	349,619	1,105	381,184
2028	-	357,638	-	412,195
Thereafter	-	3,940	-	1,460,959
Total	$ (170,853)	$ 272,021	$ (89,878)	$ 2,076,607

C. City Administered Firemen's Pension Plan

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 through the Firemen's Pension Board. The Firemen's Pension Board consists of five members: Mayor, Finance Committee Chair Councilmember, Finance Director, and one appointed LEOFF 1 member. The costs of administering the Plan are paid from the managerial fund, FPP, which resides in the General Fund for financial statement reporting. The plan provides 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 on January 1, 2023, the date of the latest actuarial valuation, zero inactive employees currently receiving full retirement benefits through the LEOFF 1 Plan, two inactive employees entitled to but not yet receiving benefits, and zero active plan members.

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. 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, 2023 the FPP's share of the City's pooled investments consisted of $0.00 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.

The plan's population is down to two retirees as of December 31, 2023. The retirees are not expected to receive benefits paid by the City for several years, as the benefits calculated under LEOFF provisions exceed those calculated under FPF for both individuals. However, as these amounts continue to grow independently with CPI adjustments to LEOFF benefits and applicable salary increases for FPF benefits, Milliman projects that under current assumptions, the FPF benefit for one of the retirees will eventually become larger than LEOFF benefit and the City may need to re-start making pension benefit payments in the future.

The total pension liability, as determined by an actuarial valuation as of January 1, 2023, was $12,429. This liability was calculated by projecting future excess benefits, then discounting them back to January 1, 2023 using a 3.75% discount rate.

The TPL was calculated under one set of assumptions, and it is highly unlikely that actual experience will precisely match those assumptions. For example, both FPF and LEOFF amounts could grow faster or slower than anticipated, and due to the highly leveraged nature of the excess benefits, the TPL can vary greatly as benefit amounts change. However, given that the managerial fund's net position stood at 2072% of TPL at the time of report, we do not expect the liability to surpass the assets at any given time soon.

Based on this last actuarial valuation, and the immateriality of the liability, and will continue to report the last liability valuation of $12,429, until such time the City will need to re-start making pension benefit payments. There are no assets accumulated in a qualifying trust.

The following table represents the aggregate pension amounts for the Fireman's Pension Fund:

Aggregate Pension Amounts: Fireman's Pension Fund		
Pension liabilities	$	(12,429)
Pension assets		-
Deferred outflows of resources		-
Deferred inflows of resources		-
Pension expense/expenditures		-

The following table represents the total pension liability to the fiduciary net position:

Milliman Actuarial Review		2023	2022	2021
Total Pension Liability (TPL)	$	12,429	12,429	52,263
Fiduciary Net Position (FNP)		318,619	257,555	378,635
TPL to FNP Ratio		2564%	2072%	724%

NOTE 7: LEOFF 1 DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT PLAN

The following table represents the aggregate other post-employment benefit (OPEB) amounts subject to the requirements of GASB Statement No. 75 for the year 2023:

Aggregate LEOFF 1 OPEB Amounts	
OPEB liabilities	$ (8,885,422)
OPEB assets	-
Deferred outflows of resources	223,140
Deferred inflows of resources	-
OPEB expenses/expenditures	214,547

A. Plan description

The LEOFF 1 OPEB Plan is administered by the City as a single-employer defined benefit plan and is not administered through a qualifying trust.

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 on December 31, 2023 include 17 inactive male retirees entitled to benefits and there are zero active employees. There were eight members in age group under 75 with an average age of 71.9, six members in age group 75-80 with an average age of 77.3, two members in age group 80-85 and one member in age group 85+ with an age of 87.0.

The City's funding policy for the plan is based upon pay-as-you-go and there are no assets accumulated in a qualifying trust.

B. Methodology, assumptions, and other inputs

The actuarial valuation date and measurement date were June 30, 2023. The actuarial cost method used was based on entry age and the amortization method was recognized immediately. The following significant assumptions were used in calculating the alternative measurement valuation for the plan for the plan year ended June 30, 2023.

ASSUMPTIONS	
Discount Rate	
Beginning of measurement year	3.54%
End of measurement year	3.65%
Healthcare Trend Rates	
Medical costs	Approximately 4.5%, varies by year
Long-term care	4.75%
Medicare Part B premiums	Approximately 5.0%, varies by year
Mortality Rates (Assume 100% Male Population)	
	PubS.H-2010 (Public Safety)
Base Mortality Table	Blended 50%/50% Healthy/Disabled
Age Setback	-1 year Healthy / 0 years Disabled
Mortality Improvements	MP-2017 Long-Term Rates
Projection Period	Generational
Medicare Participation Rate	100%

Since the alternative measurement valuation used for the OPEB plan was year end of June 30, 2023, procedures were used to roll forward the total OPEB liability to the financial statement date of December 31, 2023. At December 31, 2023, the City reported a deferred outflows of resources for payments subsequent to the measurement date of $223,140. This will be recognized as a reduction of the total OPEB liability in the year ended December 31, 2023.

C. Sensitivity analysis

The following table represents the total OPEB liability of the City calculated using the current healthcare cost trend rate of 5.00%, as well as what the OPEB liability would be if it were calculated using a rate that is 1% point lower or 1% higher than the current healthcare cost trend rate. The table also represents the total OPEB liability of the City calculated using the current discount rate of 3.54%, as well as what the OPEB liability would be if it were calculated using a discount rate that is 1% point lower or 1% higher than the current discount rate.

	1% Decrease	Current	1% Increase
Discount Rate	$ 9,855,051	$ 8,885,422	$ 8,055,518
Healthcare Trend	$ 8,090,853	$ 8,885,422	$ 9,792,664

D. Changes in total OPEB liability

LEOFF 1 OPEB Plan	
Total OPEB Liability at 01/01/2023	$ 8,670,875
Service Cost	-
Interest	299,814
Changes of benefit terms	-
Changes in experience data & assumptions	321,390
Benefit payments	(406,657)
Other changes	-
Total OPEB Liability at 12/31/2023	$ 8,885,422

E. Deferred outflows

As of December 31, 2023, the City reported a deferred outflows of resources for payments subsequent to the measurement date of $223,140, this will be recognized as a reduction of the total OPEB liability in the year ended December 31, 2023. There are no other amounts reported as deferred outflows or deferred inflows of resources related to OPEB.

NOTE 8: CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS

As of December 31, 2023 the City had contractual obligations on the following construction projects:

Contracting Entity	Project Name	Spent to Date	Remaining Commitment
Public Works/Transportation			
David Evans & Associates	30th Street Improvments -1 (Design)	$ 404,112	$ 490,236
Trantech Engineering	Riverside Drive Improvements - 1 (Design)	232,340	296,367
Trantech Engineering	Riverside Drive Improvements - 2 (Design)	229,796	549,343
Wilson Engineering	Division Street Sidewalk Retrofit (Design)	84,031	107,257
Lydig Construction (Construction)	Library Commons	25,246,755	16,052,740
HKP (Design/Const Support)	Library Commons	3,801,102	195,802
OAC (Const. Management)	Library Commons	1,284,184	499,265
Wastewater Utility			
Carletti (Design/Const. Mgmt)	WWTP Garage/Shop	133,608	15,477
Valdez (Construction)	WWTP Garage/Shop	747,812	953,183
HDR Engineering (Design/Const. Mgmt)	WWTP Influent Pump Station Header	270,804	37,033
Strider Construction (Construction)	WWTP Influent Pump Station Header	311,518	2,362,786
Technical Systems (Contractor)	WWTP PLCs	195,811	20,592
HDR Engineering	WWTP On-Call Services	238,403	99,967
Surface Water Utility			
Brown & Caldwell	NPDES	29,263	117,022
HDR Engineering (Design)	Park Street Pump Station	67,453	144,047
AES	Skagit Highlands Monitoring	50,364	14,736
Trantech Engineering	Eaglemont Earthen Wall Monitoring	9,815	5,185
Total Contractual Commitments		$ 33,337,172	$ 21,961,038

NOTE 9: INTERFUND ACTIVITY

A. Due to/from

The City had due to/froms related to 2023 year-end cash receipt adjustments as follows:

Due to	Due from: General Fund	Due from: Surfacewater Fund	Total
General Fund	$ -	$ 93,557	$ 93,557
Wastewater Fund	28,056	-	28,056
Total	$ 28,056	$ 93,557	$ 121,614

B. Interfund loan

The City authorized a loan between the budgeted managerial fund, Parks Capital Reserve Fund, which is presented in the statements as part of the General Fund, and the internal service fund for Equipment Replacement & Reserve. The loan provides financing for the purchase of property.

Purpose	Original Borrowing	Annual Interest	Maturity Date	Beginning Balance	Additions	Deletions	Outstanding Balance 12/31/2023
Little Mountain Road	$ 366,123	2.00%	12/1/2025	$ 188,497	$ -	$ 61,592	$ 126,905

Annual interfund loan repayment requirements to maturity are as follows:

Year ending December 31	Principal	Interest
2024	$ 62,824	$ 2,538
2025	64,081	1,282
Total	$ 126,905	$ 3,820

C. Interfund transfers

Interfund transfers in 2023: supported the maintenance and operation of streets in the General Fund; contributed to the Capital Projects Fund to support capital purchases, and the future Library Commons Project, and contributions into the Facility Renewal Fund to support the capital and operating costs of that fund.

Transfers Out	Transfers In: General Fund	Transfers In: Debt Service Fund	Transfers In: Capital Projects Fund	Total
General Fund	-	-	$ 265,000	$ 415,000
ARPA Fund	-	-	151,296	151,296
Capital Projects Fund	540,000	877,014	-	1,417,014
Total	$ 540,000	$ 877,014	$ 416,296	$ 1,983,310

NOTE 10: LEASES

A. Leases payable

This section provides information for leases where the City is a lessee. These leases are required to be reported under Governmental Accounting Standards Board (GASB) Statement No. 87 – *Leases*. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources.

The City leases equipment, such as mailing machines, copiers, and printers under non-cancellable leases for periods through 2028. As of December 31, 2023, the City had 20 active leases; the leases have payments that range from $118 to $4,857 and interest rates that range from 0.2383% to 2.9650%. The total combined value of the lease liability is $83,729, and the total combined value of the short-term lease liability is $37,243. The combined value of the right to use asset is $83,984 which is comprised equipment leases as shown in the table below.

Right-to-use lease assets, net

	As of Fiscal Year-end	
Asset Class	Governmental Assets	Proprietary Assets
Equipment	$ 67,371	$ 16,613
Total right-to-use lease assets, net	$ 67,371	$ 16,613

The governmental activities lease liabilities and future principal and interest payments as of December 31, 2023, are as follows:

Lease Liabilities

Governmental Activities	Beginning Balance 1/1/2023	Increase	Decrease	Ending Balance 12/31/2023	Due Within One Year
Lease Liability:					
Equipment	$ 92,292	$ 8,085	$ 33,024	$ 67,353	$ 29,631
Total Governmental activities lease liabilities	$ 92,292	$ 8,085	$ 33,024	$ 67,353	$ 29,631

Principal and Interest Requirements to Maturity

	Governmental Activities		
Fiscal Year	Principal Payments	Interest Payments	Total Payments
2024	$ 29,431	$ 497	$ 29,928
2025	25,772	291	26,063
2026	9,482	126	9,608
2027	1,824	50	1,874
2028	844	10	854
Total	$ 67,353	$ 974	$ 68,327

The business-type lease liabilities and future principal and interest payments as of December 31, 2023, are as follows:

Lease Liabilities

Business-Type Activities	Beginning Balance 1/1/2023	Increase	Decrease	Ending Balance 12/31/2023	Due Within One Year
Lease Liability:					
Equipment	$ 25,904	$ -	$ 9,528	$ 16,376	$ 7,612
Total Business-type activities lease liabilities	$ 25,904	$ -	$ 9,528	$ 16,376	$ 7,612

Principal and Interest Requirements to Maturity

	Business-Type Activities		
Fiscal Year	Principal Payments	Interest Payments	Total Payments
2024	$ 7,880	$ 112	$ 7,992
2025	6,313	89	$ 6,402
2026	1,615	23	$ 1,638
2027	568	8	$ 576
Total	$ 16,376	$ 232	$ 16,608

B. Leases receivable

The City has leased office space, facilities, communication sites, parking lots, and fiber infrastructure to various tenants. The terms and conditions for these leases vary, with terms ranging between 2-15 years. The City has used interest rates ranging between 0.2383%- 4.5740% as the discount rates for these leases. The measurement of initial lease receivables excludes variable lease payments based on future performance of the lessee or usage of the underlying asset as well as future payment adjustments dependent on the Consumer Price Index (CPI) or other indexes. Variances between the initial measurement and adjustments for variable payments will be recognized as revenue in future periods. The total lease receivable for such leases for the year ended December 31, 2023, was $421,533 and the total combined value of the short-term lease receivable was $97,054.

Lease Receivables

Governmental Activities	Beginning Balance 1/1/2023	Increase	Decrease	Ending Balance 12/31/2023	Due Within One Year
Lease Receivables:					
Buildings	$ 256,363	$ 44,340	$ 55,891	$ 244,812	$ 65,067
Infrastructure	181,363	-	27,506	153,857	30,174
Land Improvement	24,584	-	1,722	22,862	1,813
Total Lease Receivables	$ 462,310	$ 44,340	$ 85,119	$ 421,531	$ 97,054

Lease Receivables

Business-Type Activities	Beginning Balance 1/1/2023	Increase	Decrease	Ending Balance 12/31/2023	Due Within One Year
Lease Receivables:					
Buildings	$ 11,962	$ -	$ 11,962	$ -	$ -
Total Lease Receivables	$ 11,962	$ -	$ 11,962	$ -	$ -

Principal and Interest Expected to Maturity			
	Governmental Activities		
Fiscal Year	Principal Payments	Interest Payments	Total Payments
2024	$ 97,054	$ 4,469	$ 101,523
2025	76,277	3,206	79,483
2026	67,359	2,484	69,843
2027	68,073	1,830	69,903
2028	41,098	1,274	42,372
2029-2033	51,704	3,103	54,807
2034-2036	19,966	315	20,281
Total	$ 421,531	$ 16,681	$ 438,212

NOTE 11: SUBSCRIPTION BASED INFORMATION TECHNOLOGY ARRANGEMENTS

This section provides information for subscription-based information technology arrangements (SBITA) where the City is a lessee. These subscriptions are required to be reported under Governmental Accounting Standards Board (GASB) Statement No. 96 – *Subscription-Based Information Technology Arrangements.*

The City is obligated under SBITA contracts covering IT software that expire at various dates during the next five years. The City recognizes a subscription liability and an intangible right-to-use subscription asset (SBITA asset) in the government-wide financial statements. At the commencement of a SBITA contract, the City initially measures the subscription liability at the present value of payments expected to be made during the subscription term. Subsequently, the subscription liability is reduced by the principal portion of subscription payments made. The subscription asset is initially measured as the initial amount of the subscription liability, adjusted for subscription payments made at or before the subscription commencement date, plus certain initial direct costs. Subsequently, the subscription asset is amortized on a straight-line basis over its useful life.

The City has entered into various SBITA contracts as lessee primarily for the right-to-use a SBITA vendor's IT software. Most subscriptions have initial terms of up to five years, and contain one or more renewals at our option, generally for three or five year periods. We have generally included these renewal periods in the subscription term when it is reasonably certain that we will exercise the renewal option. The City's subscriptions generally do not include termination options for either party to the subscription or restrictive financial or other covenants.

The City's SBITA contracts do not contain any material residual value guarantees. As the interest rate implicit in the City's SBITA contracts is not readily determinable, the City utilizes its incremental borrowing rate to discount the subscription payments.

As of December 31, 2023, the City had 3 active subscriptions with payments that range from $53,051 to $230,537 and interest rates that range from 0.0830% to 2.6430%. The total combined value of the subscription liability is $1,468,855 and the total combined value of the short-term subscription liability is $311,695. The combined value of the right to use asset, as of 12/31/2023 of $1,842,359 with accumulated amortization of $375,809. The statement of net position shows the following amounts relating to the SBITA contracts.

Right-to-use SBITA assets, net				
Governmental Activities	Beginning Balance 1/1/2023	Increase	Decrease	Ending Balance 12/31/2023
Right-to-use SBITA Assets:				
SBITA	$ -	1,842,359	$ -	$ 1,842,359
Total Subscription Assets	-	1,842,359	-	1,842,359
Accumulated Amortization:				
Subscriptions	-	(375,809)	-	(375,809)
Total Accumulated Amortization	-	(375,809)	-	(375,809)
Governmental activities subscription assets, net	$ -	$ 1,466,550	$ -	$ 1,466,550

The SBITA Liabilities and future principal and interest subscription payments as of December 31, 2023, are as follows:

SBITA Liabilities, net					
Governmental Activities	Beginning Balance 1/1/2023	Increase	Decrease	Ending Balance 12/31/2023	Due Within One Year
SBITA Liabilities:					
SBITA	$ -	$ 1,835,786	$ (366,931)	$ 1,468,855	$ 311,695
Total SBITA Liabilities, net	$ -	$ 1,835,786	$ (366,931)	$ 1,468,855	$ 311,695

Principal and Interest Requirements to Maturity			
	Governmental Activities		
Fiscal Year	Principal Payments	Interest Payments	Total Payments
2024	$ 375,031	$ 14,734	$ 389,765
2025	379,598	10,167	389,765
2026	317,645	7,043	324,688
2027	91,870	5,616	97,486
2028	96,606	4,315	100,921
2029-2031	208,105	4,456	212,561
Total	$ 1,468,855	$ 46,331	$ 1,515,186

NOTE 12: LONG TERM LIABILITIES

A. Limited General Tax Obligations

The City is also in the construction phase for the remodel of Fire Station #2 and #3. A needs assessment was completed in December of 2018 which identified many station improvements that need to be made to meet health and safety guidelines. Funding is provided by issuing a Limited Tax General Obligation Bond (Non-voted). In 2022, the City issued two LGTO bonds (2022A & 2022B) for a total borrowing of $11,680,000, see the table below for additional detail. These LTGO bonds are funded using Ground Emergency Medical Transportation (GEMT) funding.

	Sale Date	Original Borrowing	Average Coupon Interest Rate %	Maturity Date	Outstanding Balance 12/31/2023
Limited Tax General Obligation Bonds 2022 A	2022	$ 9,530,000	4.00% - 5.00%	12/31/2042	$ 9,530,000
Limited Tax General Obligation Bonds 2022B	2022	2,150,000	3.70% - 4.02%	12/31/2028	1,860,000
		$ 11,680,000			$ 11,390,000

Annual service requirements to maturity are as follows:

Year Ending December 31	Principal	Interest
2024	$ 405,000	$ 471,747
2025	420,000	456,356
2026	435,000	440,355
2027	450,000	423,520
2028	470,000	405,880
2029-2033	2,705,000	1,667,200
2034-2038	3,330,000	1,045,000
2039-2042	3,175,000	323,600
Total	$ 11,390,000	$ 5,233,658

B. HUD Section 108 Loan

A Section 108 Loan was issued by the United States Department of Housing and Urban Development (HUD) to the City for the Mount Vernon Library Commons project construction. Outstanding principal balance is being repaid from the City's General Fund using HUD Community Development Block Grant (CDBG) Entitlement funds. The loan is secured with the full faith and credit pledge as well as additional security identified in the Contract for Loan Guarantee Assistance specified by 24 CFR 570.705(b)(1) as well as from Real Estate Excise Tax funds and general property tax revenues. In addition, in the event of a default, the lender may use existing pledged grants to assure payment of amount due. The loan currently has a variable interest rate.

	Sale Date	Original Borrowing	Coupon Interest Rate %	Maturity Date	Balance 12/31/2023
HUD Section 108 Loan	2023	$ 1,700,000	Variable	08/01/2040	$ 1,700,000

Annual service requirements to maturity are as follows:

Year Ending December 31	Principal	Interest
2024	$ 100,000	$ 89,317
2025	100,000	77,556
2026	100,000	74,211
2027	100,000	70,707
2028	100,000	67,036
2029-2033	500,000	273,717
2034-2038	500,000	151,961
2039-2040	200,000	19,826
Total	$ 1,700,000	$ 824,331

C. Bond Anticipation Note

The City entered into a short-term limited tax general obligation (LTGO) bond anticipation note to provide up to $21,000,000 of interim financing for the Mount Vernon Library Commons (MVLC) project. The note is a direct obligation and pledge the full faith and credit of the City. The City will be turning this short-term debt into long-term debt by paying the balance owed with loan proceeds that will be received in

2024 from the U.S. Department of Transportation, Build America Bureau, Transportation Infrastructure Finance and Innovation Act (TIFIA) for the use and financing of the MVLC project.

Bond anticipation note activities for the year ended December 31, 2023 are as follows:

	Sale Date	Original Borrowing	Coupon Interest Rate %	Maturity Date	Balance 12/31/2023
Bond Anticpation Note	2023	$ 15,080,000	4.75%	12/01/2024	$ 15,080,000

Annual debt service requirements to maturity are as follows:

Year Ending December 31	Principal	Interest
2024	$ -	$ 250,995
2025	15,080,000	716,300
	$ 15,080,000	$ 967,295

As of December 31st, 2023 the City's unused line of credit for the (LGTO) bond anticipation note was $5,920,000.

D. Public Works Trust Fund Loans

State of Washington Public Works Trust Fund loans are a direct responsibility of the City. The loans are being repaid from the Wastewater Utility Fund. All Public Works Trust Fund loans have a termination event that changes the timing of repayment of outstanding amounts to become immediately due in the event of a default. Delinquent payments will be assessed a penalty of 12% per annum calculated on a 360-day year.

Business-type Activities

	Sale Date	Original Borrowing	Coupon Interest Rate %	Maturity Date	Balance 12/31/2023
Public Works Trust Fund Loan 1	2004	1,000,000	0.50%	06/01/2024	$ 53,363
Public Works Trust Fund Loan 2	2006	7,000,000	0.50%	06/01/2026	1,111,765
Public Works Trust Fund Loan 3	2008	10,000,000	0.50%	06/01/2028	2,631,579
					$ 3,796,707

Annual debt service requirements to maturity are as follows:

Year Ending December 31	Principal	Interest
2024	$ 950,267	$ 24,015
2025	896,904	18,984
2026	896,904	14,232
2027	526,316	9,747
2028	526,316	7,895
Total	$ 3,796,707	$ 74,873

E. Department of Ecology State Revolving Loan Fund

The Department of Ecology State Revolving Loan Fund (SRLF) is a liability of the Wastewater Fund used to support the Wastewater Treatment Plant Upgrade. The loan is secured by the full faith, credit, and resources of the City. The loan constitutes a lien on the net revenues of the Wastewater Fund.

	Sale Date	Original Borrowing	Coupon Interest Rate %	Maturity Date	Balance 12/31/2023
Department of Ecology SRLF	2007-2009	$ 16,263,791	2.60%	06/29/2029	$ 5,657,555

Annual debt service requirements to maturity are as follows:

Year Ending December 31	Principal	Interest
2024	$ 969,461	$ 141,601
2025	994,970	116,092
2026	1,021,149	89,913
2027	1,048,017	63,044
2028	1,075,593	34,469
2029	548,364	7,167
Total	$ 5,657,555	$ 452,286

Federal Arbitrage occurs when tax-exempt bond proceeds are invested in higher yielding taxable securities, resulting in a profit. The City does not have any applicability with Federal Arbitrage.

F. Asset Retirement Obligation

The City's Asset Retirement Obligation (ARO) liability of $209,150 is for the City's three underground fuel storage tanks. The Environmental Protection Agency as well as the Washington State Department of Ecology (DOE) regulate and monitor underground storage tanks. Disposition requirements are found in WAC 173-360A-0810. The City carries storage tank pollution liability coverage on the tanks as required by the Washington State DOE with an aggregate policy limit of $4,000,000. There are no assets restricted for the payment of the liability. Estimates were gathered from several different sources and probability factors were applied to those estimates and the life of the ARO is calculated at 40 years.

The City considered the Wastewater facility as a possible additional ARO. With regular maintenance, the facility is expected to continue to grow with the City therefore we were unable to estimate the life of the asset to estimate an additional ARO.

G. Changes in Long-Term Liabilities

Long term liability activity for the year ended December 31, 2023 are as follows:

	Balance 01/01/2023	Additions	Reductions	Balance 12/31/2023	Due Within One Year
Governmental activities:					
General obligation bonds	$ 12,141,291	$ 15,080,000	$ (313,161)	$ 26,908,130	$ 15,508,161
Debt from direct borrowings and direct placements	-	1,700,000	-	1,700,000	100,000
Compensated absences	1,974,683	3,474,631	(3,369,252)	2,080,062	208,006
Lease liabilities	92,292	8,085	(33,022)	67,355	29,631
Subscription liabilities	-	1,835,786	(366,931)	1,468,855	311,695
Net Pension obligations	1,345,163	-	(193,305)	1,151,858	-
Other postemployment benefit obligations	8,670,875	214,547	-	8,885,422	446,280
Asset retirement obligation	195,904	13,246	-	209,150	-
	24,420,208	22,326,295	(4,275,671)	42,470,832	16,603,773
Business-type activities:					
Debt from direct borrowings and direct placements	11,380,954	-	(1,926,693)	9,454,261	1,919,728
Compensated absences	277,668	387,395	(380,667)	284,396	28,439
Lease liabilities	25,904	-	(9,528)	16,376	7,612
Net Pension obligations	437,289	-	(62,125)	375,164	-
	12,121,815	387,395	(2,379,013)	10,130,197	1,955,779
Total long-term liabilities	$ 36,542,023	$ 22,713,690	$ (6,654,684)	$ 52,601,029	$ 18,559,552

NOTE 13: CONTINGENCIES AND LITIGATION

The City has recorded in its financial statements all material liabilities. In the opinion of management, the City's insurance policies are adequate to pay all known or pending claims or litigation.

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.

There are a number of old landfill sites within the City limits. All of which have been closed for more than 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.

Legal Financial Obligation Refunds – In February 2021, in State v. Blake, 197 Wn.2d 170, 173 (2021), the Washington Supreme Court invalidated Washington's simple drug possession statute. The effect of this decision is to render void all such convictions dating back to 1971. Under due process, all penalties, fines, and restitution (legal financial obligations or LFOs) ordered in connection with simple possession convictions must be refunded. An unresolved legal issue arising from the Blake decision is whether refunds of LFOs are the responsibility of the State or the individual local government agencies that collected LFOs for criminal convictions prosecuted by those jurisdictions. At this time, an estimate of collected LFOs by the City of Mount Vernon subject to refund is not available. Several lawsuits to determine whether Blake related liabilities belong to the State are currently pending, The City of Mount Vernon is not a party to this litigation but will be following these matters. In the meantime, the City is planning as though liability for payment of the LFOs is the City's responsibility. This will ensure that the

City is prepared to fund the liability and not be caught off-guard should the courts ultimately determine that the State of Washington does not bear responsibility for payment of all LFOs. The City considers any LFO refunds processed and refunded by the City accruable in our governmental funds when they become due and payable (i.e., the claim is vacated, and the defendant appears in court to claim the refund). This did not occur in 2023. However, it is important to note that all LFO refunds made by the City subsequently have utilized state funding, which has been liberally appropriated by the Washington Legislature for payment of Blake-related LFOs each year since the Blake decision was rendered. In addition, in July of 2023, the refund process was moved to the State of Wahington's Administrative Office of the Courts (AOC). At this time, the City believes that the aggregate potential liability resulting from any remaining liability related to any unidentified cases or other LFOs would not materially affect the financial condition of the City and believe state funding will be adequate to cover all LFO refund liability for eligible cases arising out of the City of Mount Vernon.

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

NOTE 14: RISK MANAGEMENT

The City 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.

A. 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.

B. Liability Coverage

The City 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 169 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, errors or omissions, stop gap, employment practices, prior wrongful acts, and employee benefits liability. Limits are $4 million per occurrence in the self-insured layer, and $16 million in limits above the self-insured layer is provided by reinsurance. Total limits are $20 million per occurrence subject to aggregates and sublimits. The Board of Directors determines the limits and terms of coverage annually.

All Members are provided a separate cyber risk policy and premises pollution liability coverage group purchased by WCIA. The cyber risk policy provides coverage and separate limits for security & privacy, event management, and cyber extortion, with limits up to $1 million and subject to member deductibles, sublimits, and a $5 million pool aggregate. Premises pollution liability provides Members with a $2 million incident limit and $10 million pool aggregate subject to a $100,000 per incident Member deductible.

Insurance for property, automobile physical damage, fidelity, inland marine, and equipment breakdown coverage are purchased on a group basis. Various deductibles apply by type of coverage. Property coverage is self-funded from the members' deductible to $1,000,000, for all perils other than flood and earthquake, and insured above that to $400 million per occurrence subject to aggregates and sublimits. Automobile physical damage coverage is self-funded from the members' deductible to $250,000 and insured above that to $100 million per occurrence subject to aggregates and sublimits.

In-house services include risk management consultation, loss control field services, and claims and litigation administration. WCIA contracts for certain claims investigations, consultants for personnel and land use issues, insurance brokerage, actuarial, 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, reinsurance and other 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.

C. Unemployment Insurance

The City is a reimbursable employer with the Washington State Employment Security Department; therefore, it is self-insured for unemployment. Claims are processed by the State and paid by the City. Below is an analysis of claims activity for the three years ended December 31, 2023:

	2024	2023	2022
Liability - beginning	$ 25	$ 27,468	$ 27,629
Claims incurred	13,824	54,801	82,866
Claim payments	6,596	(82,244)	(83,027)
Liability - ending	$ 7,252	$ 25	$ 27,468

D. Employee Healthcare

The City of Mount Vernon offers medical, dental and vision coverage to all full-time employees working at least 30 hours per week year-round. For non-represented, Protec17 represented, Teamster represented, and Police Guild represented employees the City offers two medical plans through the Association of Washington Cities Employee Benefit Trust Health Care Program (AWC Trust HCP). The two medical plan options are: a $250 deductible plan and a high deductible (HD) plan; the City pays the premiums directly to AWC. For our firefighters, who are members of the International Association of Firefighters, the City provides the LEOFF Trust Premera plan B; the City pays the monthly premiums for this plan directly to the LEOFF Trust.

For all full-time employees covered under a high deductible medical plan, the City provides $1,500 or $3,000 in the form of a VEBA to offset the deductible. The City utilizes the services of BPAS to provide HRA/VEBA administration; the City deposits the deductible amount into a VEBA account for each eligible employee. Employees who are hired mid-year receive a pro-rated amount of the deductible in their VEBA account.

After the non-represented and Protec17 represented employees meet their deductible and pay $1,000 out of pocket in coinsurance, the City will pay the remaining qualified out of pocket expenses for those employees up to the maximum out of pocket. Payment for those expenses are processed through BPAS.

After the Teamster represented and Police Guild represented employees pay $2,500 for individual coverage and $4,000 for family coverage in out-of-pocket expenses (including the deductible) the City will pay the remaining qualified out of pocket expenses for those employees up to the maximum out of pocket. Payment for those expenses are processed through BPAS.

The City has continued its membership in the AWC Trust HCP for provision of dental and vision insurance coverage. AWC created 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 with the trust.

The City pays 100% of the dental and vision premiums for employee coverage. Both the City and employee contribute to the cost of premiums for spouse and dependents. City healthcare contributions for 2023 totaled $3,400,853 and employee contributions totaled $225,789.

NOTE 15: OTHER DISCLOSURES

A. New Accounting Standards

In May 2020, GASB issued Statement No. 96 "Subscription-Based Information Technology Arrangements" (SBITA). This Statement provides guidance on the accounting and financial reporting for SBITA for government end users (governments). This Statement defines SBITA; establishes that a SBITA results in a right-to-use subscription asset (an intangible asset) and a corresponding subscription liability; provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and requires note disclosures regarding SBITA. To the extent relevant, the standards for SBITA; and requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statements No. 87 Leases. The City implemented this pronouncement as of December 31, 2023.

B. Subsequent Events

i. Over the last few years, the City has been involved in multiple opioid related lawsuits which have been, or are being, settled. This has resulted in the City being awarded over $1.590 million. These funds are intended to be spent on opioid-related issues.

   In September 2022, the City entered into an agreement outlining the distribution of funds received due to the settlement of opioid litigation brought against 5 major Opioid distributors, manufactures, and their parent company. The City will receive a total of just over $569,331 over the next 18 years.

   In April 2023, the City an agreement outlining the distribution of the funds received due to the settlement of opioid litigation brought against 5 major Opioid retailers. The City will receive a total of $607,831, before legal fees, from this settlement. Payments will be distributed to the City at different rates over a period of 15 years.

   In June 17, 2024, the City received payment of $154,259.10 for its portion of the Johnson & Johnson (Janssen) opioid settlement. The City is also participating in an opioid settlement with Kroger Co. that could see an estimated $226,185 paid to the City over a currently undetermined period of time.

ii. In April 2024, the City received a loan, not to exceed $26,825,549, through the U.S. Department of Transportation, Build America Bureau, Transportation Infrastructure Finance and Innovation Act (TIFIA) for the use and financing of the Library Commons Project. In March of 2023, the City issued sale of a short-term LTGO Bond Anticipation Note to provide interim financing for the MVLC project. The Note was issued to Cashmere Valley Bank in the amount not to exceed $21,000,000 with a maturity date of December 1, 2024. The City will be using the TIFIA loan proceeds to pay off the outstanding balance of $15,080,000.

iii. In July of 2024, the City signed a grant agreement with the Federal Highway Administration, Charging and Fueling Infrastructure Grant Program in the amount of $12.5 million. This funds from this grant are to be used for Mount Vernon Library Commons Project.

City of Mount Vernon, Washington

Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended December 31, 2023

	General Fund			
	Original Budgeted Amounts	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget
REVENUES				
Property taxes	$ 8,530,278	$ 8,530,278	$ 8,491,850	$ (38,428)
Sales taxes	10,165,029	10,165,029	11,210,050	1,045,021
Public safety sales taxes	3,020,000	3,020,000	3,266,918	246,918
Transportation benefit district sales taxes	2,100,000	2,100,000	2,345,586	245,586
Utility taxes	4,570,000	4,570,000	4,815,121	245,121
Other taxes and assessments	360,000	360,000	421,996	61,996
Licenses and permits	1,293,896	1,293,896	1,260,118	(33,778)
Intergovernmental	6,935,658	7,173,158	4,752,634	(2,420,524)
Charges for services	3,307,774	3,307,774	3,289,303	(18,471)
Fines and forfeitures	311,200	311,200	244,158	(67,042)
Rents and leases	605,491	605,491	646,259	40,768
Investment earnings	145,300	145,300	932,542	787,242
Change in fair value of investments	-	-	316,288	-
Contributions and donations	50,100	73,750	71,254	(2,496)
Miscellaneous revenues	77,500	77,500	4,284	(73,216)
Total revenues	41,472,226	41,733,376	42,068,361	18,697
EXPENDITURES				
General government	4,026,845	4,064,345	5,945,049	1,880,704
Public safety	24,162,172	24,162,172	22,930,708	(1,231,464)
Transportation	4,962,217	4,962,217	4,643,503	(318,714)
Natural and economic environment	3,531,450	3,641,450	2,492,437	(1,149,013)
Social Services	246,191	746,191	577,071	(169,120)
Culture and recreation	4,177,883	4,201,781	3,753,736	(448,045)
Debt service:				
Principal	-	-	116,311	116,311
Interest and other debt costs	-	-	23,214	23,214
Capital outlay	3,505,181	3,705,181	2,492,498	(1,212,683)
Total expenditures	44,611,939	45,483,337	42,974,527	(2,508,810)
Excess of revenues over expenditures	(3,139,713)	(3,749,961)	(906,166)	2,527,507
OTHER FINANCING SOURCES (USES)				
Transfers in	540,000	540,000	540,000	-
Transfers out	(365,000)	(415,000)	(415,000)	-
Leases as lessee	-	-	8,085	8,085
Total other financing sources (uses)	175,000	125,000	133,085	8,085
Net change in fund balance	(2,964,713)	(3,624,961)	(773,081)	2,535,592
Restated fund balances - beginning	16,393,660	16,393,660	16,393,660	-
Fund balance - ending	$ 13,428,947	$ 12,768,699	$ 15,620,579	$ 2,535,592

City of Mount Vernon, Washington

Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended December 31, 2023

	ARPA Fund			
	Original Budgeted Amounts	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget
REVENUES				
Intergovernmental	$ -	$ -	$ 1,317,011	$ 1,317,011
Investment earnings	12,000	12,000	7,479	(4,521)
Change in fair value of investments	-	-	32,865	-
Total revenues	12,000	12,000	1,357,355	1,312,490
EXPENDITURES				
General government	515,461	515,461	396,155	(119,306)
Culture and recreation	-	-	44,402	44,402
Debt service:				
Principal	-	-	283,588	283,588
Capital outlay	528,000	528,000	441,569	(86,431)
Total expenditures	1,043,461	1,043,461	1,165,714	122,253
Excess of revenues over expenditures	(1,031,461)	(1,031,461)	191,641	1,190,237
OTHER FINANCING SOURCES (USES)				
Transfers out	(4,000,000)	(4,000,000)	(151,296)	3,848,704
Total other financing sources (uses)	(4,000,000)	(4,000,000)	(151,296)	3,848,704
Net change in fund balance	(5,031,461)	(5,031,461)	40,345	5,038,941
Fund balance - beginning	-	-	-	-
Fund balance - ending	$ (5,031,461)	$ (5,031,461)	$ 40,345	$ 5,038,941

City of Mount Vernon, Washington

Schedule of Proportionate Share of the Net Pension Liability

As of June 30, 2023

Last 10 Fiscal Years*

	2023	2022	2021	2020	2019	2018	2017	2016	2015
PERS 1									
Employer's proportion of the net pension liability (asset)	0.06635%	0.06357%	0.06017%	0.06297%	0.06738%	0.06680%	0.06653%	0.066820%	0.068520%
Employer's proportionate share of the net pension liability (asset)	$ 1,514,592	$ 1,770,022	$ 734,829	$ 2,223,040	$ 2,591,000	$ 2,983,177	$ 3,156,900	$ 3,588,440	$ 3,584,441
Covered payroll	$ 11,728,979	$ 10,281,499	$ 9,188,990	$ 9,144,982	$ 9,605,463	$ 8,783,524	$ 8,306,278	$ 7,949,271	$ 7,769,236
Employer's proportionate share of the net pension liability as a percentage of covered payroll	12.91%	17.22%	8.00%	24.31%	26.97%	33.96%	38.01%	45.14%	46.14%
Plan fiduciary net position as a percentage of the total pension liability	80.16%	76.56%	88.74%	68.64%	67.12%	63.22%	61.24%	57.03%	59.10%
PERS 2/3									
Employer's proportion of the net pension liability (asset)	0.08375%	0.08112%	0.07561%	0.08057%	0.08525%	0.08393%	0.08392%	0.08399%	0.086830%
Employer's proportionate share of the net pension liability (asset)	$ (3,432,606)	$ (3,008,378)	$ (7,531,873)	$ 1,030,406	$ 828,067	$ 1,433,013	$ 2,915,854	$ 4,228,780	$ 3,102,378
Covered payroll	$ 11,633,557	$ 10,197,762	$ 9,112,299	$ 9,069,035	$ 9,527,850	$ 8,707,613	$ 8,235,074	$ 7,883,157	$ 7,703,024
Employer's proportionate share of the net pension liability as a percentage of covered payroll	-29.51%	-29.50%	-82.66%	11.36%	8.69%	16.46%	35.41%	53.64%	40.27%
Plan fiduciary net position as a percentage of the total pension liability	-107.02%	-106.73%	-120.29%	97.22%	97.77%	95.77%	90.97%	85.82%	89.20%
LEOFF 1									
Employer's proportion of the net pension liability (asset)	0.04567%	0.04554%	0.04447%	0.04346%	0.04434%	0.04358%	0.04437%	0.04549%	0.041690%
Employer's proportionate share of the net pension liability (asset)	$ (1,355,437)	$ (1,306,366)	$ (1,523,347)	$ (820,822)	$ (876,390)	$ (791,268)	$ (673,115)	$ (468,667)	$ (502,505)
State's proportionate share of the net pension liability (asset) associated with the employer	(9,168,144)	(8,836,230)	(10,303,844)	(5,552,017)	(5,927,879)	(3,053,216)	(4,552,931)	-	-
Total	$ (10,523,581)	$ (10,142,596)	$ (11,827,191)	$ (6,372,839)	$ (6,804,269)	$ (3,844,484)	$ (5,226,046)	$ (468,667)	$ (502,505)
Covered payroll	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Employer's proportionate share of the net pension liability as a percentage of covered payroll	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Plan fiduciary net position as a percentage of the total pension liability	-175.99%	-169.62%	-187.45%	-146.83%	-148.78%	-144.42%	-135.96%	-123.74%	-127.36%
LEOFF 2									
Employer's proportion of the net pension liability (asset)	0.25526%	0.25938%	0.25576%	0.25841%	0.25331%	0.23227%	0.23037%	0.23895%	0.236700%
Employer's proportionate share of the net pension liability (asset)	$ (6,122,590)	$ (7,049,057)	$ (14,855,832)	$ (5,271,166)	$ (5,868,346)	$ (4,715,526)	$ (3,196,720)	$ (1,389,817)	$ (2,432,823)
State's proportionate share of the net pension liability (asset) associated with the employer	(3,909,823)	(4,566,225)	(9,583,633)	(3,370,512)	(3,842,298)	(3,053,216)	(2,073,652)	(906,059)	(1,608,587)
Total	$ (10,032,413)	$ (11,615,282)	$ (24,439,465)	$ (8,641,678)	$ (9,710,644)	$ (7,768,742)	$ (5,270,372)	$ (2,295,876)	$ (4,041,410)
Covered payroll	$ 11,241,129	$ 10,614,135	$ 9,919,748	$ 9,696,989	$ 9,789,057	$ 7,685,708	$ 7,219,692	$ 7,250,317	$ 6,920,917
Employer's proportionate share of the net pension liability as a percentage of covered payroll	-54.47%	-66.41%	-149.76%	-54.36%	-59.95%	-61.35%	-44.28%	-19.17%	-35.15%
Plan fiduciary net position as a percentage of the total pension liability	-113.17%	-116.09%	-142.00%	-115.83%	-119.43%	-118.50%	-113.36%	-106.04%	-111.67%

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

City of Mount Vernon, Washington
Schedule of Employer Contributions
As of December 31, 2023
Last 10 Fiscal Years*

	2023	2022	2021	2020	2019	2018	2017	2016	2015
PERS 1									
Statutorily or contractually required contributions	$ 422,512	$ 416,695	$ 424,104	$ 441,864	$ 476,068	$ 446,486	$ 425,932	$ 391,350	$ 341,255
Contributions in relation to the statutorily or contractually required contributions	(422,512)	(416,695)	(424,104)	(441,864)	(476,068)	(446,486)	(425,932)	(391,350)	(341,255)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Covered payroll	$ 12,182,260	$ 10,946,880	$ 9,679,232	$ 9,096,044	$ 9,605,463	$ 8,783,524	$ 8,585,367	$ 8,117,079	$ 7,767,448
Contributions as a percentage of covered payroll	3.47%	3.81%	4.38%	4.86%	4.96%	5.08%	4.96%	4.82%	4.39%
PERS 2/3									
Statutorily or contractually required contributions	$ 768,783	$ 690,550	$ 689,568	$ 714,397	$ 727,271	$ 647,605	$ 584,599	$ 501,530	$ 437,170
Contributions in relation to the statutorily or contractually required contributions	(768,783)	(690,550)	(689,568)	(714,397)	(727,271)	(647,605)	(584,599)	(501,530)	(437,170)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Covered payroll	$ 12,087,747	$ 10,855,139	$ 9,599,382	$ 9,020,132	$ 9,527,850	$ 8,707,613	$ 8,511,117	$ 8,049,715	$ 7,701,686
Contributions as a percentage of covered payroll	6.36%	6.36%	7.18%	7.92%	7.63%	7.44%	6.87%	6.23%	5.68%
LEOFF 2									
Statutorily or contractually required contributions	$ 585,902	$ 569,087	$ 516,433	$ 500,354	$ 509,799	$ 402,773	$ 395,594	$ 377,529	$ 371,121
Contributions in relation to the statutorily or contractually required contributions	(585,902)	(569,087)	(516,433)	(500,354)	(509,799)	(402,773)	(395,594)	(377,529)	(371,121)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Covered payroll	$ 11,426,302	$ 11,114,353	$ 10,055,057	$ 9,715,760	$ 9,789,056	$ 7,218,503	$ 7,418,072	$ 7,218,503	$ 7,095,977
Contributions as a percentage of covered payroll	5.13%	5.12%	5.14%	5.15%	5.21%	5.58%	5.33%	5.23%	5.23%

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

City of Mount Vernon, Washington

Schedule of Changes in Total Pension Liability and Related Ratios
Firefighters Pension Plan
For the year ended December 31, 2023
Last 10 Fiscal Years*

	2023	2022	2021	2020	2019	2018	2017	2016	2015
Total Firefighters' Pension Liability - beginning	$ 12,429	$ 52,263	$ 52,263	$ 52,263	$ 96,000	$ 124,000	$ 133,000	$ 97,000	$ 106,000
Service cost	-	-	-	-	-	-	-	-	-
Interest	-	-	-	-	-	2,000	3,000	2,000	2,000
Changes in benefit terms	-	-	-	-	-	(4,000)	(12,000)	(10,000)	(11,000)
Changes of assumptions	-	(4,336)	-	-	-	(26,000)	-	-	-
Other changes	-	(35,498)	-	-	(43,737)	-	-	44,000	-
Total Firefighters' Pension Liability - ending	12,429	$ 12,429	$ 52,263	$ 52,263	$ 52,263	$ 96,000	$ 124,000	$ 133,000	$ 97,000
Covered-employee payroll	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total OPEB liability as a % of covered payroll	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

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.

City of Mount Vernon, Washington
Schedule of Changes in Total OPEB Liability and Related Ratios
LEOFF 1 Other Postemployement Benefits Plan
For the year ended December 31, 2023
Last 10 Fiscal Years*

	2023	2022	2021	2020	2019	2018
Total OPEB liability - beginning	$ 8,670,875	$ 10,126,265	$ 10,185,146	$ 8,133,543	$ 10,077,146	$ 10,427,219
Service cost		-	-	-	-	-
Interest	299,814	214,081	220,292	278,506	295,045	367,095
Changes in benefit terms	-	-	-	-	-	-
Differences between expected and actual experience	-	-	-	-	355,340	-
Changes of assumptions	321,390	(1,236,970)	157,577	2,128,595	-	(367,780)
Benefit payments	(406,657)	(432,501)	(436,750)	(355,498)	(278,857)	(349,388)
Other changes	-	-	-	-	(2,315,131)	-
Total OPEB liability - ending	8,885,422	$ 8,670,875	$ 10,126,265	$ 10,185,146	$ 8,133,543	$ 10,077,146
Covered-employee payroll	N/A	N/A	N/A	N/A	N/A	N/A
Total OPEB liability as a % of covered payroll	N/A	N/A	N/A	N/A	N/A	N/A

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.

The Public Employee's Benefits Board OPEB plan does not have assets in trusts or equivalent arrangements and is funded on a pay-as-you-go bases.

Potential factors that may significantly affect trends in amounts reported include changes to the discount rate, health care trend rates, salary projections, and participation percentages.

City of Mount Vernon
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2023

Federal Agency (Pass-Through Agency)	Federal Program	ALN 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		-	48,378	48,378	6,308	124
ASSISTANT SECRETARY FOR COMMUNITY PLANNING AND DEVELOPMENT, HOUSING AND URBAN DEVELOPMENT, DEPARTMENT OF	Community Development Block Grants/Entitlement Grants	14.218		-	51,380	51,380	24,380	124
ASSISTANT SECRETARY FOR COMMUNITY PLANNING AND DEVELOPMENT, HOUSING AND URBAN DEVELOPMENT, DEPARTMENT OF	Community Development Block Grants/Entitlement Grants	14.218		-	48,000	48,000	48,000	124
	Total CDBG - Entitlement Grants Cluster:			**-**	**147,758**	**147,758**	78,688	
ASSISTANT SECRETARY FOR COMMUNITY PLANNING AND DEVELOPMENT, HOUSING AND URBAN DEVELOPMENT, DEPARTMENT OF (via Washington State Department of Commerce)	Emergency Solutions Grant Program	14.231	E-20-DW-53-0001/C2022038 2	1,391	-	1,391	-	124
ASSISTANT SECRETARY FOR COMMUNITY PLANNING AND DEVELOPMENT, HOUSING AND URBAN DEVELOPMENT, DEPARTMENT OF	Community Development Block Grants Section 108 Loan Guarantees	14.248	B-21-MC-53-0020	-	1,700,000	1,700,000	-	1234

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, 2023

				Expenditures				
Federal Agency (Pass-Through Agency)	Federal Program	ALN Number	Other Award Number	From Pass-Through Awards	From Direct Awards	Total	Passed through to Subrecipients	Note
OFFICE OF JUSTICE PROGRAMS, JUSTICE, DEPARTMENT OF (via Seattle Police Department)	Missing Children's Assistance	16.543	15PJDP-21-GK-03807-MECP	5,000	-	5,000	-	124
OFFICE ON VIOLENCE AGAINST WOMEN, JUSTICE, DEPARTMENT OF (via Washington State Department of Commerce)	Violence Against Women Formula Grants	16.588	F22-31103-026	14,122	-	14,122	-	124
OFFICE OF JUSTICE PROGRAMS, JUSTICE, DEPARTMENT OF	Bulletproof Vest Partnership Program	16.607		-	3,309	3,309	-	124
CRIMINAL DIVISION, JUSTICE, DEPARTMENT OF	Equitable Sharing Program	16.922	20-DEA-658408	-	2,129	2,129	-	124
FEDERAL HIGHWAY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via Washington State Department of Transportation)	Highway Planning and Construction	20.205	STPUS-7333 (001)	3,238	-	3,238	-	124
FEDERAL HIGHWAY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via Washington State Department of Transportation)	Highway Planning and Construction	20.205	STPUS-7323 (007)	128,602	-	128,602	-	124

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, 2023

Federal Agency (Pass-Through Agency)	Federal Program	ALN 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 (via Washington State Department of Transportation)	Highway Planning and Construction	20.205	STPUS-7323 (006)	141,083	-	141,083	-	124
FEDERAL HIGHWAY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via Washington State Department of Transportation)	Highway Planning and Construction	20.205	STPUS-7339 (001)	221,221	-	221,221	-	124
FEDERAL HIGHWAY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via Washington State Department of Transportation)	Highway Planning and Construction	20.205	STPUS-7285 (001)	4,065	-	4,065	-	124
			Total ALN 20.205:	**498,209**	**-**	**498,209**	-	
Highway Safety Cluster								
NATIONAL HIGHWAY TRAFFIC SAFETY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via Washington Traffic Safety Commission)	State and Community Highway Safety	20.600	2022-HVE-4452 -Region-11 Target Zero Task Force	567	-	567	-	124
			Total Highway Safety Cluster:	**567**	**-**	**567**	-	

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, 2023

Federal Agency (Pass-Through Agency)	Federal Program	ALN Number	Other Award Number	Expenditures: From Pass-Through Awards	Expenditures: From Direct Awards	Expenditures: Total	Passed through to Subrecipients	Note
DEPARTMENTAL OFFICES, TREASURY, DEPARTMENT OF THE	COVID-19 - CORONAVIRUS STATE AND LOCAL FISCAL RECOVERY FUNDS	21.027		-	1,317,011	1,317,011	-	124
			Total Federal Awards Expended:	**519,289**	**3,170,207**	**3,689,496**	**78,688**	

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, 2023

NOTE 1 - BASIS OF ACCOUNTING - This Schedule is prepared on the same basis of accounting as the City's financial statements. The City uses the full accrual basis of accounting.

NOTE 2 - FEDERAL INDIRECT COST RATE - The City has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

NOTE 3 - The city was approved by the Assistant Secretary for Community Planning and Development, Department of Housing and Urban Development, to receive a loan totaling $1,700,000 to build the Mount Vernon Library Commons facility. The amount listed for this loan includes the beginning of the period loan balance plus proceeds used during the year. The balance owing at the end of the period is $1,700,000.

NOTE 4 - PROGRAM COSTS - The amounts shown as current year expenditures represent only the federal award portion of the program costs. Entire program costs, including the city's portion, are more than shown. Such expenditures are recognized following 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.

City of MOUNT VERNON FINANCE DEPARTMENT

CORRECTIVE ACTION PLAN FOR FINDINGS REPORTED UNDER UNIFORM GUIDANCE

City of Mount Vernon
January 1, 2023 through December 31, 2023

This schedule presents the corrective action planned by the City for findings reported in this report 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).

Finding ref number: 2023-001	**Finding caption:** The City's internal controls were inadequate for ensuring accurate financial reporting.
Name, address, and telephone of City contact person: Doug Volesky 910 Cleveland Avenue Mount Vernon, WA 98273 360-336-6241	
Corrective action the auditee plans to take in response to the finding: *American Rescue Plan Act revenue recognition* The City will continue to evaluate control processes and make improvements as needed including spending more time reviewing completed financial statements. *Overhead cost allocation* The City will look for training opportunities for staff to attend that will identify GAAP changes. Going forward, financial statements will now report overhead cost allocations in the General Fund and other funds as expense reductions as required.	
Anticipated date to complete the corrective action: *American Rescue Plan Act revenue recognition* May 2025. *Overhead cost allocation* May 2025.	

ABOUT THE STATE AUDITOR'S OFFICE

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

We work with state agencies, local governments and the public to achieve our vision of increasing trust in government by helping governments work better and deliver higher value.

In fulfilling our mission to provide citizens with independent and transparent examinations of how state and local governments use public funds, we hold ourselves to those same standards by continually improving our audit quality and operational efficiency, and by developing highly engaged and committed employees.

As an agency, the State Auditor's Office has the independence necessary to objectively perform audits, attestation engagements and investigations. Our work is designed to comply with professional standards as well as to satisfy the requirements of federal, state and local laws. The Office also has an extensive quality control program and undergoes regular external peer review to ensure our work meets the highest possible standards of accuracy, objectivity and clarity.

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

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