



CITY OF MOUNT VERNON, IOWA  
INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS  
June 30, 2008

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## CITY OF MOUNT VERNON

### Officials

| <u>Name</u>        | <u>Title</u>             | <u>Term Expires</u> |
|--------------------|--------------------------|---------------------|
| Paul Tuerler       | Mayor                    | December 31, 2009   |
| Diane Hoffman      | Mayor Pro tem            | December 31, 2011   |
| Jim Moore          | Council Member           | December 31, 2009   |
| Jerry Niederhauser | Council Member           | December 31, 2009   |
| Neil Rud           | Council Member           | December 31, 2011   |
| Scott Peterson     | Council Member           | December 31, 2011   |
| Michael R. Beimer  | City Administrator/Clerk | December 31, 2009   |
| Robert Hatala      | Attorney                 | December 31, 2008   |

## Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council  
Mount Vernon, Iowa

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, Iowa, as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis 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 June 30, 2008, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 11, 2009 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 6 through 17 and 38 through 40 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Mount Vernon's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the four years ended June 30, 2007 (which are not presented herein) and expressed unqualified opinions on those financial statements, which were prepared in conformity with an other comprehensive basis of accounting. The supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Clifton Gunderson LLP*

Cedar Rapids, Iowa  
February 11, 2009

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Mount Vernon, Iowa provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2008. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### 2008 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities decreased 3.3%, from \$2,384,904 to \$2,305,647, from fiscal 2007 to fiscal 2008. The local option sales tax was passed to allow for the extra 1 cent collection in calendar years 2005 and 2006. The total local option sales tax funds collected in calendar year 2005 was \$644,998, of which \$494,396 was collected in fiscal year 2006. Total funds collected to date for this fund, including accrued interest, amounts to \$1,551,487. Revenues are to be utilized for the construction of a new fire station and/or a new community center. A percentage formula as to which project will receive funding and in what amounts was not on the ballot initiative that was passed.
- On October 10, 2003, the State of Iowa announced budget cuts to the FY2004 budget that would take place immediately. After the Revenue Estimating Conference announced a decrease of \$142.2 million in estimated state general fund revenues for fiscal year 2004, then Governor Tom Vilsack immediately announced a 2.5% cut in state spending. These cuts resulted in revenue reductions to the City of Mount Vernon in the following areas: property tax credits, machinery and equipment reimbursement, bank franchise tax and state Library of Iowa Open Access. This created a shortfall of \$8,661 for General Fund revenues for FY2005, and all succeeding fiscal years, including fiscal year 2008. It is not anticipated that these funds will be reinstated.
- Additionally, after all cities in Iowa had certified their budgets for FY2004, the state announced across the board budget cuts that severely affected the cities' ability to deliver essential services. Certain revenue sources were eliminated entirely, such as monies and credits and utility replacement excise tax. The effect on Mount Vernon's General Fund for FY2004 (and all subsequent year General Fund revenues) was a budget shortfall of \$43,041 for consolidated property and approximately \$8,000 for utility replacement excise tax. The total shortfall for FY2007, with all of the cuts and reductions, was and will be in the future, approximately \$60,000 per year. It is not anticipated that any of these funds will be reinstated.
- Disbursements for governmental activities decreased 21%, from \$4,297,015 to \$3,393,551, from fiscal 2007 to fiscal 2008. Public safety, public works, culture and recreation, capital projects, general government, and community and economic development disbursements increased approximately \$27,380, \$66,106, \$10,090, \$589,898, \$18,181, and \$22,924, respectively. Debt service disbursements decreased \$1,638,043.

- The City's total cash basis net assets decreased 18.9%, from \$7,016,549 to \$5,691,898, from June 30, 2007 to June 30, 2008. Of this amount, the assets of the governmental activities decreased by \$1,127,619 and the assets of the business type activities decreased by \$197,032. The majority of this decrease in cash basis net assets is attributable to capital projects, such as street construction, street reconstruction and street resurfacing. Bond proceeds were received in the prior year which are being used for these projects.

## **USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the non-major Governmental funds.

## **Basis of Accounting**

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with accounting principles generally accepted in the United States of America. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

## **REPORTING THE CITY'S FINANCIAL ACTIVITIES**

### *Government-wide Financial Statement*

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities. State shared revenues from Road Use Tax allocation, based on a per capita basis, fund most of the Public Works, or Streets, operational expenditures.
- Business Type Activities include the waterworks, the sanitary sewer system, solid waste and the storm sewer system. These activities are financed primarily by user charges.

#### *Fund Financial Statements*

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund, 4) the Capital Projects Fund and 5) the Permanent Fund. The governmental fund financial statements provide a detailed, 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.

The required financial statement for governmental funds is a statement of cash receipts, disbursements and changes in cash balances.

- 2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains four Enterprise Funds to provide separate information for the water, storm water, solid waste and sewer funds, all of which are considered to be major funds of the City except for the storm water fund.

The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

#### **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased sharply from a year ago, decreasing from \$5,734,752 to \$4,607,133. The vast majority of this decrease is attributable to expenditures for capital projects using bond proceeds collected in the prior year. The analysis that follows focuses on the changes in cash balances for governmental activities.

**Changes in Cash Basis Net Assets  
of Governmental Activities  
(Expressed in Thousands)**

|  | <b>Year Ended June 30,</b> |             |
|--|----------------------------|-------------|
|  | <b>2008</b>                | <b>2007</b> |
| Receipts:  |                            |             |
| Program receipts:  |                            |             |
| Charges for service  | \$ 232                     | \$ 209      |
| Operating grants, contributions and restricted interest      | 372                        | 360         |
| General receipts:  |                            |             |
| Property tax   | 1,476                      | 1,587       |
| Local option sales tax                                       | -                          | 30          |
| Grants and contributions not restricted to specific purposes | 79                         | 81          |
| Unrestricted interest on investments                         | 93                         | 86          |
| Other general receipts                                       | 53                         | 32          |
| Bond proceeds  | -                          | 4,429       |
| Total receipts   | 2,305                      | 6,814       |
| Disbursements and transfers:                                 |                            |             |
| Public safety  | 576                        | 549         |
| Public works   | 330                        | 264         |
| Culture and recreation                                       | 295                        | 285         |
| Community and economic development                           | 77                         | 54          |
| General government   | 289                        | 270         |
| Debt service   | 728                        | 2,366       |
| Capital projects   | 1,098                      | 508         |
| Transfers, net   | 40                         | 502         |
| Total disbursements and transfers                            | 3,433                      | 4,798       |
| Increase (decrease) in cash basis net assets                 | (1,128)                    | 2,016       |
| Cash basis net assets, beginning of year                     | 5,735                      | 3,719       |
| Cash basis net assets, end of year                           | \$ 4,607                   | \$ 5,735    |

The City's total receipts for governmental activities decreased by 66%, or \$4,508,402. The total cost of all programs and services decreased by \$1,364,997, or 28%, with no new programs added this year.

The City property tax rates for 2008 remained the same as last year. With the exception of two voted increases, the library tax levy and the capital equipment levy for the fire department, the base tax rate has remained unchanged for the last 15 years. Additionally, the property tax levy rate for fiscal year 2008 remained at the same rate of 12.99%. Based on increases in the total assessed valuation, with the primary increases being derived from new construction, property tax receipts are budgeted to increase by an additional \$190,628, from \$809,423 in FY08 to \$1,000,051 for FY09 next year.

The cost of all governmental activities this year, net of transfers, was \$3,433,226, compared to \$4,798,223 last year. However, as shown in the Statement of Activities and Net Assets on pages 19-22, the amount taxpayers ultimately financed for these activities was only \$2,790,215 because some of the cost was paid by those who directly benefited from the programs (charges for service \$231,819) or by other governments and organizations that subsidized certain programs with grants and contributions of \$371,517. Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service, increased in 2008 from \$569,257 to \$603,336. The City paid for the remaining "public benefit" portion of governmental activities with \$2,790,215 in tax (some of which could only be used for certain programs) and with other receipts, such as interest and general entitlements.

**Changes in Cash Basis Net Assets of Business Type Activities  
(Expressed in Thousands)**

|  | <u>Year Ended June 30,</u> |                 |
|--|----------------------------|-----------------|
|  | <u>2008</u>                | <u>2007</u>     |
| Receipts and transfers:                      |                            |                 |
| Program receipts:                            |                            |                 |
| Charges for service:                         |                            |                 |
| Water  | \$ 433                     | \$ 445          |
| Sewer  | 381                        | 393             |
| Solid waste                                  | 310                        | 306             |
| Storm water                                  | 32                         | 32              |
| General receipts:                            |                            |                 |
| Unrestricted interest on investments         | 81                         | 66              |
| Other general receipts                       | 31                         | 12              |
| Transfers, net                               | <u>40</u>                  | <u>502</u>      |
| Total receipts and transfers                 | <u>1,308</u>               | <u>1,756</u>    |
| Disbursements:                               |                            |                 |
| Water  | 538                        | 395             |
| Sewer  | 647                        | 602             |
| Solid waste                                  | 310                        | 280             |
| Storm water                                  | <u>10</u>                  | <u>12</u>       |
| Total disbursements                          | <u>1,505</u>               | <u>1,289</u>    |
| Increase (decrease) in cash basis net assets | (197)                      | 467             |
| Cash basis net assets, beginning of year     | <u>1,282</u>               | <u>815</u>      |
| Cash basis net assets, end of year           | <u>\$ 1,085</u>            | <u>\$ 1,282</u> |

Total business type activities receipts and net transfers for the fiscal year were \$1,308,060 compared to \$1,755,143 last year. The cash balance decreased \$197,032 from the prior year. Total disbursements for the fiscal year increased by 17% to a total of \$1,505,092.

## INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As Mount Vernon completed the year, its governmental funds reported a combined fund balance of \$4,607,133, a decrease of \$1,127,619 from last year's total of \$5,734,752. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$121,152 from the prior year to \$485,733. This increase is greater than the General Fund increase in FY2007 of \$68,873.
- The Local Option Sales Tax Fund cash balance increased \$15,351 during the fiscal year. The City intends to use these receipts in the future for the construction of either a new fire station or a community center.
- The Road Use Tax Fund (RUTF) cash balance increased by \$66,649 to \$120,362 during the fiscal year. The City conducted a special census in the fall of 2004 to capture new residents that were not part of the 2000 census. It is anticipated that this special census will eventually result in an increase of approximately \$250,000 of road use tax funds between now and the next census, due to the road use tax distribution formula. The City intends to use this money to upgrade the condition of all City roads. Since its creation in 1942 until FY2001, RUTF revenues steadily increased. RUTF revenues decreased for the first time in FY2001. A slumping economy and a decline in gasoline sales due to less travel by the general public were the primary factors. An increase in the use of ethanol-blended gasoline also contributed to the decrease in revenues. To encourage its use, the fuel tax on ethanol gasoline is one-cent less than non-ethanol unleaded gasoline. This results in less revenue for the Road Use Tax Fund.
- The Urban Renewal Tax Increment Fund was established in 1992 to account for major urban renewal projects within the City's business district. At the end of the fiscal year, the cash balance was \$(176,032), a decrease of \$295,366 from the previous year. This was due to a conscious decision to decrease the amount of reserves in that fund, per state code. In May of 2006, the City of Mount Vernon adopted, by Ordinance, an amended Urban Renewal Plan, which now incorporates the entire corporate city limits in the Urban Renewal District. The primary reason in so doing was for the repair and replacement of crumbling infrastructure in the older portions of the City that, prior to the adoption of the amendment, were not eligible for Tax Increment Financing. By including the entire City in one contiguous Urban Renewal District, the City will have the financial wherewithal to embark on a continuous program of infrastructure repair, within the statutory limits as prescribed by the Tax Increment Financing formula, to benefit low to moderate income families. The City will need to remain vigilant to ensure that sufficient funds are allocated to the General Fund in so doing.
- In the Spring of 2007, the City defeased approximately \$1.9 million in old bonds, comprised of the residual balances of the 1991 Street Bond and the 1998A General Obligation Bond, and additionally issued approximately \$2.5 million in new General Obligation Bonds for the purposes of a comprehensive, multi-year streets improvements program. The administration has taken a proactive policy stance on repairs and upgrades to the City's aging infrastructure. Before the bonds went to market, the City utilized the services of Standard and Poors to set about achieving a favorable rating which would have a net affect of lower interest rates on the issue from bond buyers. Due to the financial health of the City and the City's sufficient cash reserves, the City was initially given an "A" rating, which was considered extremely good for a first time rating. Additionally, when the low bid buyer purchased the bond package, they paid for insurance on the bonds, which then had the net effect of achieving an "AAA" rating for the City. There were approximately 12 bidders for the

competitive bonds sale, which was held electronically in City offices the day of the sale. The services of Standard and Poors, for their rating services, cost \$5,000; however, this rating achieved a net savings of over \$122,000 in interest charges between how the bond market was performing on unrated tax-free municipal bonds and rated bonds. The net interest on the bonds sold was approximately 3.9%, which was very favorable.

- In calendar year 2009, it is anticipated that the City will finance the construction of comprehensive sewer and water improvements projects. Initial cost estimates for the water improvements are \$1,000,000 and \$2,500,000 for the sewer improvements. Initially, it was thought that these two projects would be financed with revenue bonds, but due to fluctuations in the market conditions, the City may receive a more favorable rate of interest by financing with state revolving fund loans. Rates for both water and sewer will need to be adjusted to pay for these projects; additionally, due to the magnitude of the sewer projects funding and the declining sewer reserves, a "flat rate" may also need to be imposed. The City intends to seek federal funding through a recently announced federal stimulus program initiative, but the details of the plan and if the City is a candidate for receiving those funds is unknown at this date (January 22, 2009).
- The Debt Service Fund cash balance decreased by \$110,463 to \$2,950 during the fiscal year.

#### **INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

- The Water Fund cash balance decreased by \$102,017 to \$150,996, due primarily to an increase in program expenditures.
- The Sewer Fund cash balance decreased by \$127,037 to \$683,426, due primarily to increases in sewer operational expenses and equipment maintenance and repairs over the prior year.
- The Solid Waste Fund cash balance increased from \$150,754 to \$159,963, due primarily to a slight adjustment in accounting for certain costs attributable to this utility, having previously entered into a 7-year contract with a new waste hauler, resulting in estimated savings over the previous contract of approximately \$20,000 per year, on a 7-year cycle.
- The Storm Water Fund was newly established in June 2004, and, subsequently, there was minimal expense and minimal revenue recorded in FY08. Rates are based upon an Equivalent Residential Unit (ERU) of \$1.50 per month. The utility will be used to fund storm sewer improvements within the City. The Storm Water Fund cash balance increased from \$67,566 to \$90,380.

#### **BUDGETARY HIGHLIGHTS**

Over the course of the year, the City amended its budget once, in May 2008. The amendment was approved on May 21, 2007, and resulted in an increase in operating disbursements related to a cost overrun of approximately \$40,000 for public safety, \$10,000 for general government (much of which was additional unanticipated attorney fees due to a major revision of the City's subdivision and zoning ordinances), \$102,000 for community and economic development, and \$15,000 for culture and recreation. The City had sufficient cash balances to absorb these additional costs.

## DEBT ADMINISTRATION

At June 30, 2008, the City had \$5,720,000 in bonds and other long-term debt, compared to \$6,250,000 last year, as shown below.

### Outstanding Debt at Year End (Expressed in Thousands)

|                          | <u>Year Ended June 30,</u> |                 |
|--------------------------|----------------------------|-----------------|
|                          | <u>2008</u>                | <u>2007</u>     |
| General obligation bonds | \$ 5,105                   | \$ 5,590        |
| Revenue notes            | <u>615</u>                 | <u>660</u>      |
| Total                    | <u>\$ 5,720</u>            | <u>\$ 6,250</u> |

The City does now carry a general obligation bond rating assigned by the national rating agency Standard and Poors of an "A" rating (with a net effect of a "AAA" rating). The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$5,090,000 is significantly below its constitutional debt limit of \$10,275,333 for FY2009-10.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES AND COMMENTARY ON THE U.S. ECONOMY

Mount Vernon's elected and appointed officials and citizens considered many factors when setting the fiscal year 2008 budget, tax rates, and fees that will be charged for various City activities. One of those factors is the economy. The City's population growth has generally mirrored the population growth of Linn County.

Inflation in the state continues to be somewhat lower than the national Consumer Price Index increase. Overall, the housing market may wane a bit as a gradual rise in long-term mortgage rates takes a modest toll. Most home buyers hold 30-year fixed rate mortgages. As was noted previously in this report, in March of 2005, the City went to contracting out the building inspection services, as opposed to performing the inspections with in-house staff. This alone resulted in a revenue shortfall of approximately \$45,000, and with the present contract service, it is predicted that contracting out will cost approximately \$45,000 to \$60,000, depending on the demand for building permits, primarily due to new construction in succeeding years, with said contract services being revenue neutral. In January of 2006, the City entered into a contract with the Linn County Building Department to realize a reduction in building cost fee schedules. As noted, this new contract will be revenue neutral; however, by contracting with the Linn County Building Department, there will be significant savings as much as 50% for persons taking out building permits over the previous contractor, making the permitting process more affordable for the residents of Mount Vernon. It is anticipated that Mount Vernon's demand for new housing will remain viable as long as interest rates do not move sharply up and consumer confidence in the market is restored. Building permits issued for new housing construction are averaging approximately 20 per year, with a high of 27 compared to 17 in 2007. Mount Vernon relies heavily upon the residential tax base for funding programs within the City's General Fund. The City experienced increases in energy prices in 2007-2008. The City's supplier of natural gas and electricity recently announced an increase of 6 to 9% starting in the spring of 2009, which will affect the last half of fiscal year 2009 and upcoming fiscal year 2010.

It is anticipated that all energy costs will continue to rise in 2009-2010, especially in the wake of natural disasters and unstable world oil markets that affect the prices of energy at all levels. Management feels that energy prices, consumer confidence, mounting credit card debt, adjustments in the Federal Reserve rate and correction in the stock market remain the linchpins on whether the U.S. economy sinks or swims in 2009. If this scenario occurs, it is possible that there may be a sudden, sharp drop in housing construction, financial strains on many homeowners' incomes and a major chill in consumer confidence.

Unfortunately, housing sector concerns will likely continue for the foreseeable future. Headwinds still loom as mortgage lenders tighten lending standards and builders have yet to fully correct the mismatch between housing demand and supply. With unsold homes representing 6.5 months demand nationally, builders must cut construction significantly to bring balance back to this sector.

Market concerns about sub-prime mortgages and private equity activity continue to exert pressure performance of all bond sectors outside Treasury's. Even equity market elation over the same issues is turning toward concern about market liquidity.

In early 2006, cities across Iowa were asked to participate in a fiscal condition survey sponsored by the National League of Cities and administered by the League of Minnesota Cities. A similar survey was administered last year for Iowa communities, along with several other states throughout the Midwest. For the 2006 survey the League of Minnesota Cities attempted to branch out from the Midwest to include other regions of the country. The states that responded to the 2006 fiscal condition survey included Georgia, Illinois, Minnesota, North and South Dakota, Pennsylvania, Tennessee and Iowa.

Similar to the 2005 Fiscal Conditions Survey, cities throughout Iowa noted significant challenges in maintaining fiscal conditions from the previous year. Strains born from tightening state budgets and property tax limitations have trickled down to cities in Iowa over the past several years. These lean years have been highlighted by cities thinking outside the box for additional revenues.

### **Ability to Meet Financial Needs**

In responses mirroring the 2005 survey, Iowa communities ranked near the bottom in communities' ability to meet financial needs from one year to the next. While other states throughout the Midwest seemed to hover toward the middle percentages of being able to maintain adequate financial resources for cities, Iowa's numbers paint a different picture. In FY 2004, 29 percent of Iowa communities felt they would be able to better meet financial needs of the city for FY 2005. In FY 2005, when projecting for FY 2006, this number drops to 28 percent. Only Pennsylvania (28 and 25 percent) ranks below Iowa, while the survey average for every state was at nearly 44 percent.

### **Revenue Shortfalls**

Iowa communities appear to be acclimating to the loss of state funding and continuing pressure on property taxes due to the roll back and the general fund levy limit. State revenue shortfalls from FY 2004 were reported by 73.5 percent of cities as an issue. As communities throughout the state have adjusted to the loss of state shared revenues in the years prior to FY 2005, only 59.7 percent of Iowa communities reported state funding shortfalls as being an issue. While this number is still rather high and above the survey average of 44.4 percent, it is an improvement from FY 2004.

Obviously, fiscal comparisons between states are difficult. For example, cities in Iowa do not receive a significant amount of revenue from the State of Iowa when compared to cities in other states. In many states, budget conditions at the state level impacted local budgets as states reduced their payments to cities.

Cities throughout the state continue to note increased estimated funding shortages in property tax revenues. When combined with the continuing erosion of property values due to the roll back and the statutory general fund levy limit a significant number of cities in Iowa feel revenue constraints for city operations.

### **Actions Taken for FY 2009**

Because many of Iowa's communities already tax the maximum levy limit and have used their emergency fund levy, most Iowans property tax rates have limited capacity to increase. This lack of capacity to increase is demonstrated with Iowa falling far below most states in property tax increases. As opposed to a majority of states responding to the survey, Iowa communities could not answer shortfalls by increasing property taxes. Iowa ranks above the survey average for decreases in general taxes at 7.2 percent compared to an average of 5.2 percent and ranks below the survey average for taxing increases at 33.8 percent compared to an average of 43.4 percent. Even though cities throughout the state feel the effect of tightening budgets, citizens have yet to bare the significant costs to balance these shortfalls.

### **Conclusions**

Alternative revenue and delivery methods such as inter-agency local agreements and use of fees and charges for services may see increases while cities attempt to find stability in revenue sources. These may not only serve as solutions to current issues, but could also create a solid base for additional resources.

These indicators were taken into account when adopting the budget for fiscal year 2009. Amounts available for appropriation in the operating budget are \$9,471,658, an increase of 1.01% over the final 2008 budget. Property tax (benefiting from the increases in assessed valuations) and urban renewal tax increment financing collections, and possible bond sales to finance certain capital improvement projects, are expected to lead this increase. The City will use these increases in receipts to finance programs we currently offer and to defray a portion of the costs of carrying out major urban renewal projects of the City. Increased wage and cost-of-living adjustments, increases in the public safety fund, street reconstruction and maintenance, the possibility of a new fire station and urban renewal projects represent the largest increases. It was felt by the administration that the City needs to reinvest itself in infrastructure-related public works projects, as reflected by the sharp upswings in the appropriations for spending in these sectors. Requests for Proposals were sent out and received to investigate the needs and costs associated with upgrading the City's sanitary sewerage mains and interceptors. The Howard R. Green Engineering firm was chosen to prepare this report. Preliminary cost estimates to repair and replace needed sewer infrastructure are approximately \$2,500,000, leading to adjusting the rates for the sewer utility in case sewer revenue bonds are issued to pay for repairs, depending on the extent of the proposal. Due to changing market conditions, the City may elect to apply for a state revolving fund loan to pay for these repairs and upgrades. The City also drilled 2 new wells and is in the process of completing a second municipal water treatment in the Northeast sector of town to accommodate a growing demand for water and to stay proactive with regards to consumer demand and anticipated growth. This initiative will cost approximately \$1 million, also necessitating a rise in consumer rates and a bond sale or a SRF loan to cover these costs. At the time of this writing (January 2009), a newly announced federal stimulus bill is being promulgated; it remains to be seen, however, if the City of Mount Vernon will be the recipient of

any federal grants forthcoming for infrastructure improvements. The City intends to apply for any grants that are applicable from this stimulus bill, although the final distribution of funding has yet to be determined as to eligibility and which agencies will administer the funds. The City has added no major new programs or initiatives to the 2009 budget; however, Council made a conscious policy decision to transfer all of the funds it was estimated to receive after July 1, 2006, from the hotel/motel tax to a newly created independent Marketing and Tourism Board, for the purposes of economic development for FY07. By State code, one-half of all revenues received from the collection of taxes from this fund are to be used for Tourism and Tourism-related activities and programs. It was estimated that this revenue source contribution would be approximately \$50,000 each year. At the close of the books on June 30, 2008, the City had received \$51,270 for this purpose. For FY08, the City made the policy decision to cap future expenditures for this fund at \$50,000, regardless of the revenues generated from the Hotel/Motel Tax Fund. This same policy decision to cap the contribution at \$50,000 was made for FY09. It appears that at the end of FY09, there will be more revenues from this source due to increased usage of the facility as a direct result of the flooding that occurred in eastern Iowa in June of 2008, of which Mount Vernon was spared. Additionally, the City has embarked on a proactive, conscious policy decision to invest in the repairs and upgrades of its aging infrastructure.

If these estimates are realized, the City's budgeted cash balance from all sources, including transfers and the sale of bonds and cash reserves, is expected to decrease by approximately \$1,580,070 by the close of 2009. The City will have sufficient cash reserves if all estimates are realized.

#### PROPERTY TAX ROLL-BACK

The Iowa Department of Revenue issues an Assessment Limitation Order to county auditors to adjust actual property values. The percentages for fiscal year 2004 through 2009 are as follows:

| <u>Property Classification</u> | <u>FY2009</u> | <u>FY2008</u> | <u>FY2007</u> | <u>FY2006</u> |
|--------------------------------|---------------|---------------|---------------|---------------|
| Residential                    | 44.0853%      | 45.5595%      | 45.9960%      | 47.9642%      |
| Commercial                     | 99.7312%      | 100%          | 99.2570%      | 100%          |
| Agricultural                   | 100%          | 100%          | 100%          | 100%          |
| Industrial                     | 100%          | 100%          | 100%          | 100%          |

The January 1, 2006 property tax valuation serves as the basis for calculating property taxes for 2008. Since 1978, residential, commercial and agricultural classifications have been subject to the assessment limitation order, or roll back, that limits annual growth in property to 4% with a further restriction that growth in residential property cannot exceed that of agricultural property, whichever is less. The result is an annual rolling-back of residential values. A significant decline in agricultural land productivity has resulted in low values on agricultural land for tax purposes. The limitation can also be applied to industrial and commercial property when necessary. This low value has resulted in a significant adjustment to residential property taxes. It was hoped that the roll-back would recover slightly, in an even-numbered year without revaluation of existing properties and equalization orders being absent. However, once again the link to agricultural valuation growth forced the roll back down. Without the link between residential and agricultural growth, the residential roll back would have actually increased. The City of Mount Vernon has realized substantial residential growth in the last decade, which has partially offset the decline attributable to the roll back factor. It remains to be seen, however, if this trend will continue, at least for the foreseeable future, given the downturn in the housing market and the U.S. economy in general.

## **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, 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 Michael R. Beimer, City Administrator, 213 First Street West, Mount Vernon, Iowa.

## BASIC FINANCIAL STATEMENTS

Net (Disbursements) Receipts and  
Changes in Cash Basis Net Assets

| Governmental<br>Activities | Business Type<br>Activities | Total        |
|----------------------------|-----------------------------|--------------|
| \$ (540,260)               | \$ -                        | \$ (540,260) |
| 27,171                     | -                           | 27,171       |
| (171,030)                  | -                           | (171,030)    |
| (77,194)                   | -                           | (77,194)     |
| (202,533)                  | -                           | (202,533)    |
| (728,040)                  | -                           | (728,040)    |
| (1,098,329)                | -                           | (1,098,329)  |
| (2,790,215)                | -                           | (2,790,215)  |
| -                          | 21,176                      | 21,176       |
| -                          | (104,327)                   | (104,327)    |
| -                          | (265,392)                   | (265,392)    |
| -                          | (122)                       | (122)        |
| -                          | (348,665)                   | (348,665)    |
| (2,790,215)                | (348,665)                   | (3,138,880)  |
| 1,009,809                  | -                           | 1,009,809    |
| 318,497                    | -                           | 318,497      |
| 147,929                    | -                           | 147,929      |
| 79,491                     | -                           | 79,491       |
| 93,650                     | 81,353                      | 175,003      |
| 52,935                     | 30,565                      | 83,500       |
| (39,715)                   | 39,715                      | -            |
| 1,662,596                  | 151,633                     | 1,814,229    |

(continued)

CITY OF MOUNT VERNON

Statement of Activities and Net Assets - Cash Basis

As of and for the year ended June 30, 2008

|  | <u>Disbursements</u>        | <u>Program Receipts</u>  |
|--|-----------------------------|--|
|  | <u>Charges for Services</u> | <u>Operating Grants, Contributions and Restricted Interest</u> |
| Change in cash basis net assets          |                             |  |
| Cash basis net assets, beginning of year |                             |  |
| Cash basis net assets, end of year       |                             |  |
| <b>Cash Basis Net Assets</b>             |                             |  |
| Restricted:                              |                             |  |
| Streets                                  |                             |  |
| Maintenance and improvements             |                             |  |
| Debt service                             |                             |  |
| Cemetery perpetual care                  |                             |  |
| Other purposes                           |                             |  |
| Unrestricted                             |                             |  |
| <b>Total Cash Basis Net Assets</b>       |                             |  |

**Net (Disbursements) Receipts and  
Changes in Cash Basis Net Assets**

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| <b>Governmental<br/>Activities</b> | <b>Business Type<br/>Activities</b> | <b>Total</b>        |
|------------------------------------|-------------------------------------|---------------------|
| (1,127,619)                        | (197,032)                           | (1,324,651)         |
| <u>5,734,752</u>                   | <u>1,281,797</u>                    | <u>7,016,549</u>    |
| <u>\$ 4,607,133</u>                | <u>\$ 1,084,765</u>                 | <u>\$ 5,691,898</u> |
|                                    |                                     |                     |
| \$ 120,362                         | \$ -                                | \$ 120,362          |
| 2,516,561                          | 399,368                             | 2,915,929           |
| 2,950                              | 147,598                             | 150,548             |
| 74,855                             | -                                   | 74,855              |
| 1,582,704                          | -                                   | 1,582,704           |
| <u>309,701</u>                     | <u>537,799</u>                      | <u>847,500</u>      |
| <u>\$ 4,607,133</u>                | <u>\$ 1,084,765</u>                 | <u>\$ 5,691,898</u> |

The accompanying notes are an integral part of the financial statements.

CITY OF MOUNT VERNON

Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances - Governmental Funds

As of and for the year ended June 30, 2008

|   | Special Revenue  |                 |                                      |                              |
|---|------------------|-----------------|--------------------------------------|------------------------------|
|   | General          | Road<br>Use Tax | Urban<br>Renewal<br>Tax<br>Increment | Local<br>Option<br>Sales Tax |
| Receipts:   |                  |                 |                                      |                              |
| Property tax  | \$ 726,922       | \$ -            | \$ -                                 | \$ -                         |
| Tax increment financing                                       | -                | -               | 318,497                              | -                            |
| Other city tax  | 73,906           | -               | -                                    | -                            |
| Licenses and permits  | 69,276           | -               | -                                    | -                            |
| Use of money and property                                     | 45,023           | -               | 19,580                               | 15,489                       |
| Intergovernmental   | 9,821            | 357,340         | -                                    | -                            |
| Charges for service   | 120,979          | -               | -                                    | -                            |
| Miscellaneous   | 47,385           | 38,979          | -                                    | (138)                        |
| Total receipts  | <u>1,093,312</u> | <u>396,319</u>  | <u>338,077</u>                       | <u>15,351</u>                |
| Disbursements:  |                  |                 |                                      |                              |
| Operating:  |                  |                 |                                      |                              |
| Public safety   | 576,270          | -               | -                                    | -                            |
| Public works  | -                | 330,170         | -                                    | -                            |
| Culture and recreation  | 294,977          | -               | -                                    | -                            |
| Community and economic<br>development                         | 77,194           | -               | -                                    | -                            |
| General government  | 204,876          | -               | -                                    | -                            |
| Debt service  | -                | -               | -                                    | -                            |
| Capital projects  | -                | -               | -                                    | -                            |
| Total disbursements   | <u>1,153,317</u> | <u>330,170</u>  | <u>-</u>                             | <u>-</u>                     |
| Excess (deficiency) of receipts over<br>(under) disbursements | <u>(60,005)</u>  | <u>66,149</u>   | <u>338,077</u>                       | <u>15,351</u>                |
| Other financing sources (uses):                               |                  |                 |                                      |                              |
| Operating transfers in  | 181,657          | 500             | -                                    | -                            |
| Operating transfers out                                       | (500)            | -               | (633,443)                            | -                            |
| Total other financing sources<br>(uses)                       | <u>181,157</u>   | <u>500</u>      | <u>(633,443)</u>                     | <u>-</u>                     |

| <u>Capital Projects</u> |                               |                                |                         |                  |                    |
|-------------------------|-------------------------------|--------------------------------|-------------------------|------------------|--------------------|
| <u>Debt Service</u>     | <u>2006 Water Improvement</u> | <u>2007 Street Improvement</u> | <u>Capital Projects</u> | <u>Nonmajor</u>  | <u>Total</u>       |
| \$ 132,718              | \$ -                          | \$ -                           | \$ 60,185               | \$ 222,702       | \$ 1,142,527       |
| 15,211                  | -                             | -                              | -                       | -                | 333,708            |
| 693                     | -                             | -                              | -                       | -                | 74,599             |
| -                       | -                             | -                              | -                       | -                | 69,276             |
| 1,084                   | 7,874                         | -                              | -                       | -                | 89,050             |
| -                       | -                             | -                              | -                       | -                | 367,161            |
| -                       | -                             | -                              | -                       | -                | 120,979            |
| -                       | -                             | 7,974                          | 280                     | 13,867           | 108,347            |
| <u>149,706</u>          | <u>7,874</u>                  | <u>7,974</u>                   | <u>60,465</u>           | <u>236,569</u>   | <u>2,305,647</u>   |
| -                       | -                             | -                              | -                       | -                | 576,270            |
| -                       | -                             | -                              | -                       | -                | 330,170            |
| -                       | -                             | -                              | -                       | -                | 294,977            |
| -                       | -                             | -                              | -                       | -                | 77,194             |
| -                       | -                             | -                              | -                       | 83,695           | 288,571            |
| 728,040                 | -                             | -                              | -                       | -                | 728,040            |
| -                       | 2,802                         | 766,744                        | 325,890                 | 2,893            | 1,098,329          |
| <u>728,040</u>          | <u>2,802</u>                  | <u>766,744</u>                 | <u>325,890</u>          | <u>86,588</u>    | <u>3,393,551</u>   |
| <u>(578,334)</u>        | <u>5,072</u>                  | <u>(758,770)</u>               | <u>(265,425)</u>        | <u>149,981</u>   | <u>(1,087,904)</u> |
| 669,164                 | -                             | -                              | 139,663                 | -                | 990,984            |
| <u>(201,293)</u>        | <u>-</u>                      | <u>-</u>                       | <u>-</u>                | <u>(195,463)</u> | <u>(1,030,699)</u> |
| <u>467,871</u>          | <u>-</u>                      | <u>-</u>                       | <u>139,663</u>          | <u>(195,463)</u> | <u>(39,715)</u>    |

(continued)

CITY OF MOUNT VERNON

**Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances - Governmental Funds**

As of and for the year ended June 30, 2008

|                                  | Special Revenue |                 |                                      |                              |
|----------------------------------|-----------------|-----------------|--------------------------------------|------------------------------|
|                                  | General         | Road<br>Use Tax | Urban<br>Renewal<br>Tax<br>Increment | Local<br>Option<br>Sales Tax |
| Net change in cash balances      | 121,152         | 66,649          | (295,366)                            | 15,351                       |
| Cash balances, beginning of year | 364,581         | 53,713          | 119,334                              | 1,536,136                    |
| Cash balances, end of year       | \$ 485,733      | \$ 120,362      | \$ (176,032)                         | \$ 1,551,487                 |

**Cash Basis Fund Balances**

|                               |            |            |              |              |
|-------------------------------|------------|------------|--------------|--------------|
| Reserved:                     |            |            |              |              |
| Debt service                  | \$ -       | \$ -       | \$ -         | \$ -         |
| Unreserved:                   |            |            |              |              |
| General fund                  | 485,733    | -          | -            | -            |
| Special revenue funds         | -          | 120,362    | (176,032)    | 1,551,487    |
| Capital projects fund         | -          | -          | -            | -            |
| Permanent fund                | -          | -          | -            | -            |
| Total cash basis fund balance | \$ 485,733 | \$ 120,362 | \$ (176,032) | \$ 1,551,487 |

**REQUIRED SUPPLEMENTARY INFORMATION**

CITY OF MOUNT VERNON

Budgetary Comparison Schedule of Receipts, Disbursements and  
Changes in Balances - Budget and Actual (Cash Basis) -  
All Governmental Funds and Proprietary Funds

Required Supplementary Information

Year ended June 30, 2008

|  | Governmental<br>Funds<br>Actual | Proprietary<br>Funds<br>Actual | Less<br>Funds not<br>Required to<br>be Budgeted |
|--|---------------------------------|--------------------------------|---|
| Receipts:  |                                 |                                |   |
| Property tax   | \$ 1,142,527                    | \$ -                           | \$ -  |
| Tax increment financing  | 333,708                         | -                              | -   |
| Other city tax   | 74,599                          | -                              | -   |
| Licenses and permits   | 69,276                          | -                              | -   |
| Use of money and property  | 89,050                          | 81,361                         | -   |
| Intergovernmental  | 367,161                         | -                              | -   |
| Charges for service  | 120,979                         | 1,156,427                      | -   |
| Miscellaneous  | 108,347                         | 30,557                         | -   |
|  | <u>2,305,647</u>                | <u>1,268,345</u>               | <u>-</u>  |
| Total receipts   |                                 |                                |   |
| Disbursements:   |                                 |                                |   |
| Public safety  | 576,270                         | -                              | -   |
| Public works   | 330,170                         | -                              | -   |
| Culture and recreation   | 294,977                         | -                              | -   |
| Community and economic development   | 77,194                          | -                              | -   |
| General government   | 288,571                         | -                              | -   |
| Debt service   | 728,040                         | -                              | -   |
| Capital projects   | 1,098,329                       | -                              | -   |
| Business type activities   | -                               | 1,505,092                      | -   |
|  | <u>3,393,551</u>                | <u>1,505,092</u>               | <u>-</u>  |
| Total disbursements  |                                 |                                |   |
| Excess (deficiency) of receipts over<br>(under) disbursements                                      | (1,087,904)                     | (236,747)                      | -   |
| Other financing sources, net   | <u>(39,715)</u>                 | <u>39,715</u>                  | <u>-</u>  |
| Deficiency of receipts and other financing sources<br>under disbursements and other financing uses | (1,127,619)                     | (197,032)                      | -   |
| Balances, beginning of year  | <u>5,734,752</u>                | <u>1,281,797</u>               | <u>-</u>  |
| Balances, end of year  | <u>\$ 4,607,133</u>             | <u>\$ 1,084,765</u>            | <u>\$ -</u>                                     |

**OTHER SUPPLEMENTARY INFORMATION**

CITY OF MOUNT VERNON

Schedule of Cash Receipts, Disbursements  
and Changes in Cash Balances -  
Nonmajor Governmental Funds

As of and for the year ended June 30, 2008

|   | Special Revenue   |                      | Capital Projects       |                                   |
|---|-------------------|----------------------|------------------------|-----------------------------------|
|   | Insurance<br>Levy | Employee<br>Benefits | Low-Moderate<br>Income | Waste Water<br>Treatment<br>Plant |
| Receipts:   |                   |                      |                        |                                   |
| Property tax  | \$ 85,997         | \$ 136,705           | \$ -                   | \$ -                              |
| Use of money and property                                     | -                 | -                    | -                      | -                                 |
| Miscellaneous   | -                 | -                    | 10,537                 | -                                 |
| Total receipts  | <u>85,997</u>     | <u>136,705</u>       | <u>10,537</u>          | <u>-</u>                          |
| Disbursements:  |                   |                      |                        |                                   |
| Operating:  |                   |                      |                        |                                   |
| General government  | 83,695            | -                    | -                      | -                                 |
| Capital projects  | -                 | -                    | -                      | 2,893                             |
| Total disbursements   | <u>83,695</u>     | <u>-</u>             | <u>-</u>               | <u>2,893</u>                      |
| Excess (deficiency) of receipts over<br>(under) disbursements | 2,302             | 136,705              | 10,537                 | (2,893)                           |
| Other financing uses:   |                   |                      |                        |                                   |
| Operating transfers out                                       | -                 | (136,705)            | -                      | (58,758)                          |
| Net change in cash balances                                   | 2,302             | -                    | 10,537                 | (61,651)                          |
| Cash balances, beginning of year                              | <u>28,915</u>     | <u>-</u>             | <u>-</u>               | <u>65,620</u>                     |
| Cash balances, end of year                                    | <u>\$ 31,217</u>  | <u>\$ -</u>          | <u>\$ 10,537</u>       | <u>\$ 3,969</u>                   |
| <b>Cash Basis Fund Balances</b>                               |                   |                      |                        |                                   |
| Unreserved:   |                   |                      |                        |                                   |
| Special revenue funds   | \$ 31,217         | \$ -                 | 10,537                 | \$ -                              |
| Capital project funds   | -                 | -                    | -                      | 3,969                             |
| Permanent fund  | -                 | -                    | -                      | -                                 |
| Total cash basis fund<br>balances                             | <u>\$ 31,217</u>  | <u>\$ -</u>          | <u>\$ 10,537</u>       | <u>\$ 3,969</u>                   |

| <u>Permanent<br/>Cemetery<br/>Perpetual<br/>Care</u> | <u>Total</u>      |
|--|-------------------|
| \$ -   | \$ 222,702        |
| -  | -                 |
| <u>3,330</u>   | <u>13,867</u>     |
| <u>3,330</u>   | <u>236,569</u>    |
| -  | 83,695            |
| -  | <u>2,893</u>      |
| -  | <u>86,588</u>     |
| 3,330  | 149,981           |
| <u>-</u>   | <u>(195,463)</u>  |
| 3,330  | (45,482)          |
| <u>71,525</u>  | <u>166,060</u>    |
| <u>\$ 74,855</u>                                     | <u>\$ 120,578</u> |
| <br>   |                   |
| \$ -   | \$ 41,754         |
| -  | 3,969             |
| <u>74,855</u>  | <u>74,855</u>     |
| <br>   |                   |
| <u>\$ 74,855</u>                                     | <u>\$ 120,578</u> |

CITY OF MOUNT VERNON

Schedule of Indebtedness

Year ended June 30, 2008

| <u>Obligation</u>  | <u>Date of Issue</u> | <u>Interest Rates</u> | <u>Amount Originally Issued</u> |
|--|----------------------|-----------------------|---------------------------------|
| General obligation bonds and capital loan notes:                     |                      |                       |                                 |
| 1988 City Hall construction  | July 1, 1988         | 5.40-7.40%            | \$ 510,000                      |
| 2006 Water improvements  | April 1, 2006        | 3.625-3.90%           | 1,225,000                       |
| 2007 Street improvements   | May 17, 2007         | 4%                    | 4,410,000                       |
| Total  |                      |                       |                                 |
| Revenue notes:   |                      |                       |                                 |
| 1998 Sewer revenue notes (1998 wastewater treatment plant expansion) | Sept. 1, 1998        | 4.00-5.20%            | \$1,000,000                     |

| <u>Capital Projects</u> |                               |                                |                         |                   |                     |
|-------------------------|-------------------------------|--------------------------------|-------------------------|-------------------|---------------------|
| <u>Debt Service</u>     | <u>2006 Water Improvement</u> | <u>2007 Street Improvement</u> | <u>Capital Projects</u> | <u>Nonmajor</u>   | <u>Total</u>        |
| (110,463)               | 5,072                         | (758,770)                      | (125,762)               | (45,482)          | (1,127,619)         |
| <u>113,413</u>          | <u>666,135</u>                | <u>2,554,487</u>               | <u>160,893</u>          | <u>166,060</u>    | <u>5,734,752</u>    |
| <u>\$ 2,950</u>         | <u>\$ 671,207</u>             | <u>\$ 1,795,717</u>            | <u>\$ 35,131</u>        | <u>\$ 120,578</u> | <u>\$ 4,607,133</u> |
| \$ 2,950                | \$ -                          | \$ -                           | \$ -                    | \$ -              | \$ 2,950            |
| -                       | -                             | -                              | -                       | -                 | 485,733             |
| -                       | -                             | -                              | -                       | 41,754            | 1,537,571           |
| -                       | 671,207                       | 1,795,717                      | 35,131                  | 3,969             | 2,506,024           |
| <u>-</u>                | <u>-</u>                      | <u>-</u>                       | <u>-</u>                | <u>74,855</u>     | <u>74,855</u>       |
| <u>\$ 2,950</u>         | <u>\$ 671,207</u>             | <u>\$ 1,795,717</u>            | <u>\$ 35,131</u>        | <u>\$ 120,578</u> | <u>\$ 4,607,133</u> |

The accompanying notes are an integral part of the financial statements.

## CITY OF MOUNT VERNON

Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances - Proprietary Funds

As of and for the year ended June 30, 2008

|   | <u>Water</u> | <u>Sewer</u> | <u>Solid<br/>Waste</u> | <u>Nonmajor<br/>Storm Water</u> | <u>Total</u> |
|---|--------------|--------------|------------------------|---------------------------------|--------------|
| Operating receipts:   |              |              |                        |                                 |              |
| Use of money and property   | \$ 38,672    | \$ 32,021    | \$ 9,211               | \$ 1,457                        | \$ 81,361    |
| Charges for service   | 433,634      | 381,308      | 309,918                | 31,567                          | 1,156,427    |
| Miscellaneous   | 15,651       | 14,786       | 120                    | -                               | 30,557       |
| Total operating receipts  | 487,957      | 428,115      | 319,249                | 33,024                          | 1,268,345    |
| Operating disbursements:  |              |              |                        |                                 |              |
| Business type activities  | 537,961      | 568,165      | 310,040                | 10,391                          | 1,426,557    |
| Excess (deficiency) of operating receipts<br>over (under) operating disbursements | (50,004)     | (140,050)    | 9,209                  | 22,633                          | (158,212)    |
| Non-operating disbursements:  |              |              |                        |                                 |              |
| Debt service  | -            | 78,535       | -                      | -                               | 78,535       |
| Excess (deficiency) of receipts over<br>(under) disbursements                     | (50,004)     | (218,585)    | 9,209                  | 22,633                          | (236,747)    |
| Other financing sources (uses):   |              |              |                        |                                 |              |
| Operating transfers in  | -            | 120,388      | -                      | 180                             | 120,568      |
| Operating transfers out   | (52,013)     | (28,840)     | -                      | -                               | (80,853)     |
| Total other financing<br>sources (uses)   | (52,013)     | 91,548       | -                      | 180                             | 39,715       |
| <b>Net change in cash balances</b>  | (102,017)    | (127,037)    | 9,209                  | 22,813                          | (197,032)    |
| Cash balances, beginning of year  | 253,013      | 810,463      | 150,754                | 67,567                          | 1,281,797    |
| Cash balances, end of year  | \$ 150,996   | \$ 683,426   | \$ 159,963             | \$ 90,380                       | \$ 1,084,765 |
| <b>Cash Basis Fund Balances</b>   |              |              |                        |                                 |              |
| Reserved for maintenance and<br>improvements                                      | \$ 239,768   | \$ 159,600   | \$ -                   | \$ -                            | \$ 399,368   |
| Reserved for debt service   | -            | 147,598      | -                      | -                               | 147,598      |
| Unreserved  | (88,772)     | 376,228      | 159,963                | 90,380                          | 537,799      |
| Total cash basis fund balances  | \$ 150,996   | \$ 683,426   | \$ 159,963             | \$ 90,380                       | \$ 1,084,765 |

The accompanying notes are an integral part of the financial statements.

## CITY OF MOUNT VERNON

### Notes to Financial Statements

June 30, 2008

#### (1) Summary of Significant Accounting Policies

The City of Mount Vernon, a political subdivision of the State of Iowa located in Linn County, operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development and general government services. The City also provides water, sewer and solid waste utilities for its citizens.

##### A. Reporting Entity

For financial reporting purposes, the City has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on, the City.

The following component unit is an entity that is legally separate from the City, but is so intertwined with the City that it is, in substance, part of the City. However, the financial transactions of this component unit have not been displayed because they are not material.

The Mt. Vernon Fire Department was established by adopting its own constitution and by-laws. The Fire Department collects donations which are used to purchase items which are not included in the City's budget.

The police and fire reserve organizations have governing authorities independent from the City and are not considered to be component units of the City. As such, their activity is not included in the financial statements of the City.

##### B. Basis of Presentation

Government-wide Financial Statement - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

CITY OF MOUNT VERNON

Notes to Financial Statements

June 30, 2008

(1) Summary of Significant Accounting Policies (continued)

B. Basis of Presentation (continued)

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from the other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Urban Renewal Tax Increment Fund is used to account for urban renewal projects financed by tax increment financing.

**CITY OF MOUNT VERNON**  
**Notes to Financial Statements**  
**June 30, 2008**

**(1) Summary of Significant Accounting Policies (continued)**

**B. Basis of Presentation (continued)**

The Local Option Sales Tax Fund is used to account for the receipt and expenditure of local option sales taxes.

The 2007 Street Improvement Fund is used to account for street improvement projects.

The 2006 Water Improvement Fund is used to account for water improvement projects.

The Capital Improvement Projects Fund is used to account for capital improvements and the acquisition of equipment.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The Solid Waste Fund accounts for the costs associated with solid waste removal which is funded through user fees.

**C. Measurement Focus and Basis of Accounting**

The City of Mount Vernon maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

CITY OF MOUNT VERNON

Notes to Financial Statements

June 30, 2008

**(1) Summary of Significant Accounting Policies (continued)**

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2008, disbursements exceeded the amount budgeted in the Debt Service Fund.

E. Property Tax Calendar

The City's property tax rates were extended against the assessed valuation of the City as of January 1, 2006 to compute the amounts which became liens on property on July 1, 2007. These taxes were due and payable in two installments on September 30, 2007 and March 31, 2008, at the Linn County Treasurer's Office. These taxes are recognized as income to the City when they are received from the county.

**(2) Cash and Pooled Investments**

The City's deposits in banks at June 30, 2008, were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days, but the maturities shall be consistent with the needs and use of the City.

**(3) Bonds and Notes Payable**

On May 17, 2007, the City issued \$4,410,000 in General Obligation Bonds with an average interest rate of 4.02 percent to advance refund \$1,840,000 of 1998 wastewater treatment plant expansion bonds with an average interest rate of 4.65 percent. Net proceeds of \$4,385,236 (after payment of issuance costs and underwriter's premium of \$11,306) were used to purchase U.S. Government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for payment of the following: (i) interest on the 1998 wastewater treatment plant expansion bonds as the same become due to and including June 1, 2017, and (ii) prepayment of the principal of the 1998 wastewater treatment plant expansion bonds on June 1, 2017.

**CITY OF MOUNT VERNON**

**Notes to Financial Statements**

**June 30, 2008**

**(3) Bonds and Notes Payable (continued)**

As a result, \$1,840,000 of the 1998 wastewater treatment plant expansion bonds are considered to be defeased and the liability for those notes have been removed from the City's indebtedness amount. The City advance refunded the 1998 wastewater treatment plant expansion bonds to reduce its total debt service payments over the next ten years by almost \$52,500 and to obtain an economic gain (difference between the present value of the debt service payments on the old and new debt) of approximately \$42,000.

Annual debt service requirements to maturity for general obligation bonds and notes and revenue notes are as follows:

| <b>Year<br/>Ending<br/>June 30,</b> | <b>General Obligation<br/>Bonds &amp; Notes</b> |                           | <b>Revenue Notes</b>     |                          | <b>Total</b>              |                           |
|-------------------------------------|---|---------------------------|--------------------------|--------------------------|---------------------------|---------------------------|
|                                     | <b>Principal</b>                                | <b>Interest</b>           | <b>Principal</b>         | <b>Interest</b>          | <b>Principal</b>          | <b>Interest</b>           |
| 2009                                | \$ 400,000                                      | \$ 246,407                | \$ 50,000                | \$ 30,767                | \$ 450,000                | \$ 277,174                |
| 2010                                | 420,000   | 227,396                   | 50,000                   | 28,443                   | 470,000                   | 255,839                   |
| 2011                                | 430,000   | 207,311                   | 55,000                   | 26,117                   | 485,000                   | 233,428                   |
| 2012                                | 450,000   | 186,586                   | 55,000                   | 23,450                   | 505,000                   | 210,036                   |
| 2013                                | 460,000   | 164,810                   | 60,000                   | 20,783                   | 520,000                   | 185,593                   |
| 2014                                | 480,000   | 142,186                   | 60,000                   | 17,752                   | 540,000                   | 159,938                   |
| 2015                                | 505,000   | 118,731                   | 65,000                   | 14,723                   | 570,000                   | 133,454                   |
| 2016                                | 525,000   | 93,813                    | 70,000                   | 11,440                   | 595,000                   | 105,253                   |
| 2017                                | 395,000   | 67,613                    | 75,000                   | 7,800                    | 470,000                   | 75,413                    |
| 2018                                | 190,000   | 41,600                    | 75,000                   | 3,900                    | 265,000                   | 45,500                    |
| 2019                                | 200,000   | 34,000                    | -                        | -                        | 200,000                   | 34,000                    |
| 2020                                | 210,000   | 26,000                    | -                        | -                        | 210,000                   | 26,000                    |
| 2021                                | 215,000   | 17,600                    | -                        | -                        | 215,000                   | 17,600                    |
| 2022                                | <u>225,000</u>                                  | <u>9,000</u>              | <u>-</u>                 | <u>-</u>                 | <u>225,000</u>            | <u>9,000</u>              |
| <b>Total</b>                        | <b><u>\$5,105,000</u></b>                       | <b><u>\$1,583,053</u></b> | <b><u>\$ 615,000</u></b> | <b><u>\$ 185,175</u></b> | <b><u>\$5,720,000</u></b> | <b><u>\$1,768,228</u></b> |

The resolutions providing for the issuance of the revenue notes include the following provisions:

- a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the fund.
- b) Certain notes may be called for redemption by the City.
- c) Sufficient monthly transfers shall be made to a separate sewer revenue note sinking account for the purpose of making the note principal and interest payments when due. The minimum amount to be deposited in the sinking fund in any month is one-sixth of the interest installment coming due on the next interest payment date plus one-twelfth of the principal installment coming due on the next principal date.

CITY OF MOUNT VERNON

Notes to Financial Statements

June 30, 2008

**(3) Bonds and Notes Payable** (continued)

- d) Funds remaining in the sewer revenue account after the payment of all current expenses and required transfers into the sinking fund will be disbursed as follows: (1) a separate sewer revenue debt service reserve fund will be established in amounts equal to at least the lesser of the maximum amount of principal and interest coming due in any succeeding fiscal year or 10% of the stated principal amount of the sale of the notes to the public; (2) a separate sewer revenue improvement fund will be established and a minimum of \$400 will be deposited into this fund each month until a balance of \$50,000 is reached.

The City is insured by the Iowa Communities Assurance Pool and policies existing at June 30, 2008 expire on June 30, 2009.

The City also has fidelity bond insurance coverage through EMC Insurance Companies in the amount of \$100,000. The current policy expires on July 1, 2008, but has been renewed through July 1, 2009.

The City has not maintained a separate sewer revenue account from which transfers were to be made into an operations and maintenance fund as required by the sewer revenue note resolutions. Instead, the revenue fund and operations and maintenance fund were treated as one fund.

**(4) Pension and Retirement Benefits**

The City contributes to the Iowa Public Employees Retirement Systems (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 3.90% of their annual covered salary and the City is required to contribute 6.05% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2008, 2007 and 2006 were \$63,742, \$57,867, and \$53,006, respectively, equal to the required contributions for each year.

**CITY OF MOUNT VERNON**  
**Notes to Financial Statements**  
**June 30, 2008**

**(5) Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and sick leave termination payments payable to employees at June 30, 2008, primarily relating to the General Fund, is as follows:

| <u>Type of Benefit</u> | <u>Amount</u>            |
|------------------------|--------------------------|
| Vacation               | \$ 64,238                |
| Sick leave             | <u>88,290</u>            |
| <b>Total</b>           | <b><u>\$ 152,528</u></b> |

This liability has been computed based on rates of pay in effect at June 30, 2008.

Sick leave is payable when used or upon termination, retirement or death. If at retirement or death an employee has at least 20 years of service, all of the accumulated sick leave will be paid, with the pay rate being the same as the employee's regular rate. Upon termination (voluntary/involuntary) the employee shall receive one half of all accumulated sick leave pay. Based on this computation, the minimum accumulated sick leave approximates \$44,145 at June 30, 2008.

The City is also potentially liable for severance pay for one of its employees. If the employee's contract is not renewed by the City Council, the City agrees to pay an amount equal to eight months of the employee's salary. Calculated based on rates of pay as of June 30, 2008, this amount approximates \$51,871.

**(6) Meter Deposits**

At June 30, 2008, the City was holding meter deposits from individuals in the amount of \$6,188.

**CITY OF MOUNT VERNON**  
**Notes to Financial Statements**  
**June 30, 2008**

**(7) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2008 is as follows:

| <u>Transfer to</u>                                 | <u>Transfer from</u>                            | <u>Amount</u>       |
|--|---|---------------------|
| Debt Service                                       | Special Revenue:<br>Urban Renewal Tax Increment | \$ 633,443          |
|  | Enterprise:<br>Water                            | 35,721              |
|  |   | <u>669,164</u>      |
| General Fund                                       | Enterprise:<br>Water                            | 16,292              |
|  | Sewer   | 28,660              |
|  | Special Revenue:<br>Employee Benefits           | 136,705             |
|  |   | <u>181,657</u>      |
| Capital Project:<br>Capital Improvement<br>Project | Debt Service                                    | <u>139,663</u>      |
| Enterprise:<br>Sewer                               | Debt Service                                    | 61,630              |
|  | Capital Project:<br>WWTP                        | 58,758              |
|  |   | <u>120,388</u>      |
| Special Revenues:<br>Road Use Tax                  | General Fund                                    | <u>500</u>          |
| Enterprise:<br>Storm Water                         | Enterprise:<br>Sewer                            | <u>180</u>          |
| Total  |   | <u>\$ 1,111,552</u> |

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

CITY OF MOUNT VERNON

Notes to Financial Statements

June 30, 2008

**(8) Related Party Transaction**

The City had business transactions between the City and an immediate family member of a City official totaling \$7,300 during the year ended June 30, 2008.

**(9) Risk Management**

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**(10) Deficit Balance**

The Urban Renewal Tax Increment Fund had a deficit balance of \$176,032 at June 30, 2008. The deficit balance was a result of project costs incurred prior to availability of funds. The deficit will be eliminated in future years upon receipt of T.I.F. funds.

**(11) Commitments**

The City has entered into various equipment purchase agreements and construction contracts totaling \$1,267,521. Through June 30, 2008, no amounts have been paid towards these commitments. The City has also entered into a contract for services to be performed for the City. This contract requires payments totaling \$45,000, of which \$15,000 has been paid through June 30, 2008.

The City has a contract for solid waste hauling that extends from July 1, 2005 through June 30, 2012. Payments under the contract are dependent upon the number of City residents.

This information is an integral part of the accompanying financial statements.

| Net                 | Budgeted Amounts    |                     | Final to Net<br>Variance |
|---------------------|---------------------|---------------------|--------------------------|
|                     | Original            | Final               |                          |
| \$ 1,142,527        | \$ 1,145,880        | \$ 1,145,880        | \$ (3,353)               |
| 333,708             | 312,570             | 312,570             | 21,138                   |
| 74,599              | 85,243              | 85,243              | (10,644)                 |
| 69,276              | 44,800              | 44,800              | 24,476                   |
| 170,411             | 105,070             | 105,070             | 65,341                   |
| 367,161             | 361,032             | 398,032             | (30,871)                 |
| 1,277,406           | 1,346,066           | 1,346,066           | (68,660)                 |
| 138,904             | 82,700              | 82,700              | 56,204                   |
| <u>3,573,992</u>    | <u>3,483,361</u>    | <u>3,520,361</u>    | <u>53,631</u>            |
| 576,270             | 559,186             | 599,186             | 22,916                   |
| 330,170             | 336,360             | 336,360             | 6,190                    |
| 294,977             | 313,625             | 328,625             | 33,648                   |
| 77,194              | 59,270              | 161,270             | 84,076                   |
| 288,571             | 289,385             | 299,385             | 10,814                   |
| 728,040             | 368,843             | 368,843             | (359,197)                |
| 1,098,329           | 3,818,119           | 3,818,119           | 2,719,790                |
| 1,505,092           | 3,888,374           | 3,888,374           | 2,383,282                |
| <u>4,898,643</u>    | <u>9,633,162</u>    | <u>9,800,162</u>    | <u>4,901,519</u>         |
| (1,324,651)         | (6,149,801)         | (6,279,801)         | 4,955,150                |
| <u>-</u>            | <u>4,810,000</u>    | <u>4,810,000</u>    | <u>(4,810,000)</u>       |
| (1,324,651)         | (1,339,801)         | (1,469,801)         | 145,150                  |
| <u>7,016,549</u>    | <u>4,249,056</u>    | <u>4,249,056</u>    | <u>2,767,493</u>         |
| <u>\$ 5,691,898</u> | <u>\$ 2,909,255</u> | <u>\$ 2,779,255</u> | <u>\$ 2,912,643</u>      |

## CITY OF MOUNT VERNON

### Notes to Required Supplementary Information - Budgetary Reporting

June 30, 2008

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, the Debt Service Fund, the Capital Projects Funds and the Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, a budget amendment increased budgeted receipts by \$37,000 and disbursements by \$167,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2008, disbursements exceeded the amounts budgeted in the debt service function.

Schedule 2

| <u>Balance<br/>Beginning<br/>of Year</u> | <u>Issued<br/>During<br/>Year</u> | <u>Redeemed<br/>During Year</u> | <u>Balance<br/>End of<br/>Year</u> | <u>Interest<br/>Paid</u> | <u>Interest<br/>Due and<br/>Unpaid</u> |
|--|-----------------------------------|---------------------------------|------------------------------------|--------------------------|--|
| \$ 50,000                                | \$ -                              | \$ 50,000                       | \$ -                               | \$ 3,700                 | \$ -                                   |
| 1,130,000                                | -                                 | 105,000                         | 1,025,000                          | 42,465                   | -                                      |
| <u>4,410,000</u>                         | <u>-</u>                          | <u>330,000</u>                  | <u>4,080,000</u>                   | <u>191,100</u>           | <u>-</u>                               |
| <u>\$5,590,000</u>                       | <u>\$ -</u>                       | <u>\$ 485,000</u>               | <u>\$5,105,000</u>                 | <u>\$ 237,265</u>        | <u>\$ -</u>                            |
| <u>\$ 660,000</u>                        | <u>\$ -</u>                       | <u>\$ 45,000</u>                | <u>\$ 615,000</u>                  | <u>\$ 32,860</u>         | <u>\$ -</u>                            |

## CITY OF MOUNT VERNON

## Bond and Note Maturities

June 30, 2008

General Obligation Bonds and Capital Loan Notes

| Year Ending<br><u>June, 30</u> | <u>2007 Street Improvements</u><br><u>Issued May 17, 2007</u> |                    | <u>2006 Water Improvements</u><br><u>Issued April 1, 2006</u> |                    | <u>Total</u>       |
|--------------------------------|---|--------------------|---|--------------------|--------------------|
|                                | <u>Interest Rates</u>   | <u>Amount</u>      | <u>Interest Rates</u>   | <u>Amount</u>      |                    |
| 2009                           | 4.00%   | \$ 285,000         | 3.625%  | \$ 115,000         | \$ 400,000         |
| 2010                           | 4.00  | 300,000            | 3.700   | 120,000            | 420,000            |
| 2011                           | 4.00  | 310,000            | 3.750   | 120,000            | 430,000            |
| 2012                           | 4.00  | 325,000            | 3.750   | 125,000            | 450,000            |
| 2013                           | 4.00  | 335,000            | 3.750   | 125,000            | 460,000            |
| 2014                           | 4.00  | 345,000            | 3.800   | 135,000            | 480,000            |
| 2015                           | 4.00  | 365,000            | 3.850   | 140,000            | 505,000            |
| 2016                           | 4.00  | 380,000            | 3.900   | 145,000            | 525,000            |
| 2017                           | 4.00  | 395,000            | -   | -                  | 395,000            |
| 2018                           | 4.00  | 190,000            | -   | -                  | 190,000            |
| 2019                           | 4.00  | 200,000            | -   | -                  | 200,000            |
| 2020                           | 4.00  | 210,000            | -   | -                  | 210,000            |
| 2021                           | 4.00  | 215,000            | -   | -                  | 215,000            |
| 2022                           | 4.00  | <u>225,000</u>     | -   | <u>-</u>           | <u>225,000</u>     |
| <b>Total</b>                   |   | <u>\$4,080,000</u> |   | <u>\$1,025,000</u> | <u>\$5,105,000</u> |

Revenue Notes1998 Sewer RevenueNotes (1998 WastewaterTreatment Plant Expansion)Issued Sept. 1, 1998

| Year Ending<br><u>June, 30</u> | <u>Interest Rates</u> | <u>Amount</u>     |
|--------------------------------|-----------------------|-------------------|
| 2009                           | 4.65%                 | \$ 50,000         |
| 2010                           | 4.65                  | 50,000            |
| 2011                           | 4.85                  | 55,000            |
| 2012                           | 4.85                  | 55,000            |
| 2013                           | 5.05                  | 60,000            |
| 2014                           | 5.05                  | 60,000            |
| 2015                           | 5.05                  | 65,000            |
| 2016                           | 5.20                  | 70,000            |
| 2017                           | 5.20                  | 75,000            |
| 2018                           | 5.20                  | <u>75,000</u>     |
| <b>Total</b>                   |                       | <u>\$ 615,000</u> |

## CITY OF MOUNT VERNON

Schedule of Receipts by Source and Disbursements by Function -  
All Governmental Funds

For the Last Five Years

|  | Years Ended June 30, |                    |                    |                    |                    |
|--|----------------------|--------------------|--------------------|--------------------|--------------------|
|  | <u>2008</u>          | <u>2007</u>        | <u>2006</u>        | <u>2005</u>        | <u>2004</u>        |
| Receipts:                              |                      |                    |                    |                    |                    |
| Property tax                           | \$1,142,527          | \$ 991,801         | \$ 854,772         | \$ 876,918         | \$ 816,454         |
| Tax increment financing<br>collections | 333,708              | 595,021            | 739,361            | 613,934            | 733,812            |
| Other city tax                         | 74,599               | 103,758            | 560,300            | 518,229            | 138,678            |
| Licenses and permits                   | 69,276               | 57,439             | 90,086             | 72,072             | 44,181             |
| Use of money and property              | 89,050               | 102,637            | 43,350             | 29,333             | 24,856             |
| Intergovernmental                      | 367,161              | 355,094            | 342,940            | 333,602            | 346,631            |
| Charges for service                    | 120,979              | 107,965            | 113,589            | 93,816             | 103,887            |
| Miscellaneous                          | <u>108,347</u>       | <u>71,189</u>      | <u>84,446</u>      | <u>117,918</u>     | <u>132,311</u>     |
| Total                                  | <u>\$2,305,647</u>   | <u>\$2,384,904</u> | <u>\$2,828,844</u> | <u>\$2,655,822</u> | <u>\$2,340,810</u> |
| Disbursements:                         |                      |                    |                    |                    |                    |
| Operating:                             |                      |                    |                    |                    |                    |
| Public safety                          | \$ 576,270           | \$ 548,890         | \$ 528,275         | \$ 518,300         | \$ 477,261         |
| Public works                           | 330,170              | 264,064            | 380,354            | 363,862            | 297,335            |
| Culture and recreation                 | 294,977              | 284,887            | 269,225            | 310,357            | 265,166            |
| Community and economic<br>development  | 77,194               | 54,270             | 38,541             | 21,715             | 7,240              |
| General government                     | 288,571              | 270,390            | 265,636            | 265,671            | 203,634            |
| Debt service                           | 728,040              | 2,366,083          | 511,753            | 518,900            | 511,520            |
| Capital projects                       | <u>1,098,329</u>     | <u>508,431</u>     | <u>568,756</u>     | <u>316,288</u>     | <u>216,604</u>     |
| Total                                  | <u>\$3,393,551</u>   | <u>\$4,297,015</u> | <u>\$2,562,540</u> | <u>\$2,315,093</u> | <u>\$1,978,760</u> |

**Independent Auditor's Report on Internal Control over Financial Reporting  
and on Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance with *Government Auditing Standards***

To the Honorable Mayor and  
Members of the City Council  
Mount Vernon, Iowa

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, Iowa, as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated February 11, 2009. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City of Mount Vernon's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City of Mount Vernon's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Mount Vernon's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and another deficiency we consider to be a material weakness.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Mount Vernon's ability to initiate, authorize, record, process, or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of the City of Mount Vernon's financial statements that is more than inconsequential will not be prevented or detected by the City of Mount Vernon's internal control. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the City of Mount Vernon's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe items II-B-08 and II-C-08 are material weaknesses.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Mount Vernon's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2008 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

City of Mount Vernon's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Mount Vernon's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Mount Vernon and other parties to whom the City of Mount Vernon may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Mount Vernon during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

*Clifton Henderson LLP*

Cedar Rapids, Iowa  
February 11, 2009

CITY OF MOUNT VERNON

Schedule of Findings

Year ended June 30, 2008

**Part I: SUMMARY OF THE INDEPENDENT AUDITOR'S RESULTS:**

- (a) Unqualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.
- (b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

**PART II: FINDINGS RELATED TO THE FINANCIAL STATEMENTS:**

**SIGNIFICANT DEFICIENCIES:**

**II-A-08: Segregation of Duties**

Criteria:

The City should have adequate segregation of duties to provide for the accuracy and reliability of the financial statements.

Condition:

The City does not have complete segregation of duties over all accounting transactions.

Context:

Internal controls that are in place could be averted, overridden, or not consistently implemented.

Effect:

As a result of this condition, there is a higher risk that errors or irregularities could occur and not be detected within a timely period.

Cause:

The City has a limited number of personnel performing accounting functions.

Recommendation:

When this condition exists, management's close supervision and review of accounting information is the best means of preventing or detecting errors and irregularities. We recommend the City review its operating procedures to obtain the maximum internal control possible under the circumstances.

**CITY OF MOUNT VERNON**

**Schedule of Findings**

**Year ended June 30, 2008**

**PART II: FINDINGS RELATED TO THE FINANCIAL STATEMENTS: (CONTINUED)**

**SIGNIFICANT DEFICIENCIES: (CONTINUED)**

**II-A-08: Segregation of Duties (continued)**

**Management Response:**

With a limited number of office employees, segregation of duties is sometimes difficult. Management is aware of the lack of segregation of duties and has considered alternatives to improve the situation. Management is monitoring the situation and is segregating accounting duties where practical.

**Conclusion:**

Response accepted.

**II-B-08: Preparation of Financial Statements**

**Criteria:**

The City Council and management share the ultimate responsibility for the City's financial statements, including disclosures.

**Condition:**

The City has not implemented procedures, to the degree necessary, to perform a review and assume responsibility for the City's financial statements and related disclosures to provide a high level of assurance that potential omissions or other errors that are less than material, but more than inconsequential, would be identified and corrected. These review procedures would include the use of review aids, such as a disclosure checklist, and the monitoring of recent accounting developments that would affect the City.

**Context:**

The City engages Clifton Gunderson to assist in preparing its financial statements and accompanying disclosures. While it is acceptable to outsource various accounting functions, the responsibility for internal control cannot be outsourced. The independent auditor cannot be considered part of the City's internal control system.

**Effect:**

As a result of this condition, there is a higher risk that financial statement omissions or other errors could occur and not be detected.

CITY OF MOUNT VERNON

Schedule of Findings

Year ended June 30, 2008

PART II: FINDINGS RELATED TO THE FINANCIAL STATEMENTS: (CONTINUED)

SIGNIFICANT DEFICIENCIES: (CONTINUED)

**II-B-08: Preparation of Financial Statements** (continued)

Cause:

The City has relied on the independent auditor to some degree to provide assurance that the financial statements, including disclosures, are not materially misstated.

Recommendation:

We recommend that sufficient financial statement and disclosure review procedures be performed by an individual possessing a thorough understanding of applicable generally accepted accounting principles and knowledge of the City's activities and operations.

Management Response:

The City does not have the resources to employ staff possessing the detailed understanding of applicable generally accepted accounting principles to the extent required to utilize such a disclosure checklist. We understand the list of reporting and disclosure requirements in these disclosure checklists exceeds 50 pages in length. As a result, the City of Mount Vernon has relied on the independent auditor to identify disclosures required in the financial statements.

Conclusion:

Response accepted.

**II-C-08: Audit Adjustments**

Criteria:

The City should have adequate procedures to provide for the accuracy and reliability of the trial balance given to the auditor.

Condition:

During the course of the audit, misstatements that had a material effect on the City's financial statements were discovered. Adjusting journal entries were made to correct these misstatements. This is not a new or unusual situation but auditing standards require that this situation be communicated.

Context:

Although adjustments during the course of an audit are not uncommon, the independent auditor cannot be considered part of the City's internal control system.

CITY OF MOUNT VERNON

Schedule of Findings

Year ended June 30, 2008

**PART II: FINDINGS RELATED TO THE FINANCIAL STATEMENTS:** (CONTINUED)

**II-C-08: Audit Adjustments** (continued)

Effect:

As a result of this condition, there is a higher risk that misstatements that are material to the financial statements could occur and not be detected.

Cause:

The City has relied on the independent auditor to some degree to provide assurance that the financial statements are not materially misstated.

Recommendation:

We recommend that the City establish internal procedures to adjust all account balances prior to the audit.

Management Response:

Management believes their review of fund balances will result in potential financial statement misstatements being identified and corrected prior to audit.

Conclusion:

Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

CITY OF MOUNT VERNON

Schedule of Findings

Year ended June 30, 2008

**PART III: OTHER FINDINGS RELATED TO REQUIRED STATUTORY REPORTING**

III-A-08 Certified Budget - Disbursements during the year ended June 30, 2008 exceeded the amounts budgeted in the debt service function. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

Recommendation - The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The budget will be amended in the future, if applicable.

Conclusion - Response accepted.

III-B-08 Questionable Disbursements - We noted no disbursements that failed to meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

III-C-08 Travel Expense - No expenditures of City money for travel expenses of spouses of City officials or employees were noted.

III-D-08 Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

| <u>Name, Title, and Business Connection</u>                            | <u>Transaction Description</u> | <u>Amount</u> |
|--|--------------------------------|---------------|
| Jim Moore, Council Member,<br>father of owner of Jim's Tree<br>Service | Tree Maintenance               | \$ 7,300      |

In accordance with Chapter 362.5(4) of the Code of Iowa, this transaction does not appear to represent a conflict of interest since it was entered into through competitive bidding.

III-E-08 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

III-F-08 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

CITY OF MOUNT VERNON

Schedule of Findings

Year ended June 30, 2008

**PART III: OTHER FINDINGS RELATED TO REQUIRED STATUTORY REPORTING (CONTINUED)**

III-G-08 Revenue Bonds - The provisions of the sewer revenue capital loan note resolution states that separate funds shall be established for both the income and revenue of the sewer system and the current disbursements of the sewer system and that a monthly transfer be made from the revenue fund to the disbursing fund in order to cover expenditures. A monthly transfer, as required by the bond agreement, has not been made from the revenue funds to the operation and maintenance fund.

Recommendation - Monthly transfers from a revenue fund to an operation and maintenance fund should be done according to the terms of the sewer revenue capital loan note resolution.

Response - The City feels that maintaining one fund for the sewer system revenues and expenses makes it easier to track and understand financial position at any given time. The City plans to continue with one fund for the sewer system revenues and expenses.

Conclusion - Response accepted.

III-H-08 Deposits and Investments - No instances of noncompliance were noted with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.

III-I-08 Economic Development - The City paid \$48,522 to the Mount Vernon Development Corporation which may not be an appropriate expenditure of public funds.

In accordance with Chapter 15A of the Code of Iowa and an Attorney General's opinion dated August 28, 1986, government financing of economic development may, in appropriate circumstances, serve a public purpose. The opinion advises the governing body to evaluate the public benefits to be obtained and discusses specific criteria to be considered in documenting the public purpose.

Recommendation - The Council should evaluate and document the public purpose served by the expenditure before authorizing further payments and should require the Development Corporation to provide documentation of how the funds were used to accomplish economic development activities.

Response - We have requested and received information documenting how these funds were expended and we will continue to request this information as applicable.

Conclusion - Response accepted.

CITY OF MOUNT VERNON

Schedule of Findings

Year ended June 30, 2008

**PART III: OTHER FINDINGS RELATED TO REQUIRED STATUTORY REPORTING (CONTINUED)**

III-J-08     Financial Condition - The Urban Renewal Tax Increment Fund had a deficit balance at June 30, 2008 of \$176,032.

Recommendation - The City should investigate alternatives to eliminate this deficit in order to return this fund to a sound financial position.

Response - The deficit was due to capital project costs incurred greater than T.I.F. receipts. The deficit will be eliminated in future years.

Conclusion - Response accepted.

**CITY OF MOUNT VERNON**

**Audit Staff**

This audit was performed by:

William Vincent, CPA, Audit Partner

Bradley Hauge, CPA, Audit Partner

James Fitzpatrick, CPA, Manager

Kimberly Drew, Senior Associate

Joshua Barta, Associate

Lindsey Kotowske, Associate