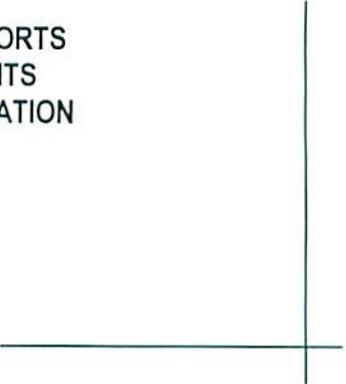


CITY OF MOUNT VERNON, IOWA  
INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS  
June 30, 2009



## TABLE OF CONTENTS

		<u>Page</u>
<b>OFFICIALS</b>		3
<b>INDEPENDENT AUDITOR'S REPORT</b>		4 - 5
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b>		6 - 16
<b>BASIC FINANCIAL STATEMENTS</b>		17
	<u>Exhibit</u>	
Government-wide Financial Statement: Statement of Activities and Net Assets - Cash Basis	A	18 - 21
Governmental Fund Financial Statement: Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B	22 - 25
Proprietary Fund Financial Statement: Statement of Cash Receipts, Disbursements and Changes in Cash Balances	C	26
Notes to Financial Statements		27 - 35
<b>REQUIRED SUPPLEMENTARY INFORMATION</b>		36
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds		37 - 38
Notes to Required Supplementary Information - Budgetary Reporting		39
<b>OTHER SUPPLEMENTARY INFORMATION</b>		40
	<u>Schedule</u>	
Schedule of Cash Receipts, Disbursements and Changes in Cash Balances - Nonmajor Governmental Funds	1	41 - 42
Schedule of Indebtedness	2	43 - 44
Bond and Note Maturities	3	45
Schedule of Receipts by Source and Disbursements by Function - All Governmental Funds	4	46
<b>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</b>		47 - 48
<b>SCHEDULE OF FINDINGS</b>		49 - 54
<b>AUDIT STAFF</b>		55

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	Indefinite
Robert Hatala	Attorney	Indefinite
Abbi Stensland	Attorney	Indefinite

## 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, 2009, 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, 2009, 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 November 13, 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 five years ended June 30, 2008 (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  
November 13, 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, 2009. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### 2009 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities increased 35.4%, from \$2,305,647 to \$3,121,977, from fiscal 2008 to fiscal 2009. A local option sales tax was passed to allow for an extra 1 cent collection beginning in calendar year 2005. Total funds accumulated as of June 30, 2009, including accrued interest, amounts to \$1,603,913. These 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. Revenues in fiscal year 2009 includes \$385,000 of bond proceeds.
- 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 2009. 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 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 re-instated.
- Disbursements for governmental activities increased 32.6%, from \$3,393,551 to \$4,499,361, from fiscal 2008 to fiscal 2009. Public safety, public works, capital projects, and general government disbursements increased approximately \$71,024, \$49,656, \$1,012,661, and \$75,050, respectively. Debt service disbursements decreased \$7,678, and \$125,381, respectively.
- The City's total cash basis net assets decreased 28.1%, from \$5,691,897 to \$4,092,128, from June 30, 2008 to June 30, 2009. Of this amount, the assets of the governmental activities decreased by \$1,291,768 and the assets of the business type activities decreased by \$308,001. 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 fiscal year 2007 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 \$4,607,132 to \$3,315,364. The vast majority of this decrease is attributable to expenditures for capital projects using bond proceeds collected in fiscal year 2007. 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><u>2009</u></b>	<b><u>2008</u></b>
Receipts:		
Program receipts:		
Charges for service	\$ 197	\$ 232
Operating grants, contributions and restricted interest	365	372
General receipts:		
Property tax	2,001	1,476
Local option sales tax	50	-
Grants and contributions not restricted to specific purposes	8	79
Unrestricted interest on investments	38	93
Other general receipts	78	53
Bond proceeds	385	-
Total receipts	3,122	2,305
Disbursements:		
Public safety	647	576
Public works	380	330
Culture and recreation	325	295
Community and economic development	70	77
General government	364	289
Debt service	603	728
Capital projects	2,111	1,098
Total disbursements	4,500	3,393
Change in cash basis net assets before transfers	(1,378)	(1,088)
Transfers, net	86	(40)
Change in cash basis net assets	(1,292)	(1,128)
Cash basis net assets, beginning of year	4,607	5,735
Cash basis net assets, end of year	\$ 3,315	\$ 4,607

The City's total receipts for governmental activities increased by 35%, or \$816,330. The total cost of all programs and services increased by \$1,105,810, or 32.6%, with no new programs added this year.

The City property tax rates for 2009 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 16 years. Additionally, the property tax levy rate for fiscal year 2009 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 \$153,096, from \$1,000,051 (estimated) in FY09 to \$1,153,147 for FY10 next year.

The cost of all governmental activities this year was \$4,499,361, compared to \$3,393,551 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 \$3,937,866 because some of the cost was paid by those who directly benefited from the programs (charges for service \$196,704) or by other governments and organizations that subsidized certain programs with grants and contributions of \$364,791. Overall, the City's governmental activities program receipts, including intergovernmental aid and fees for service, decreased in 2009 from \$603,336 to \$561,495. The City paid for the remaining "public benefit" portion of governmental activities with \$3,937,866 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>2009</u>	<u>2008</u>
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 429	\$ 433
Sewer	381	381
Solid waste	258	310
Storm water	35	32
General receipts:		
Unrestricted interest on investments	37	81
Other general receipts	<u>131</u>	<u>31</u>
Total receipts	<u>1,271</u>	<u>1,268</u>
Disbursements:		
Water	512	538
Sewer	617	647
Solid waste	332	310
Storm water	<u>32</u>	<u>10</u>
Total disbursements	<u>1,493</u>	<u>1,505</u>
Change in cash basis net assets before transfers	(222)	(237)
Transfers, net	<u>(86)</u>	<u>40</u>
Change in cash basis net assets	(308)	(197)
Cash basis net assets, beginning of year	<u>1,085</u>	<u>1,282</u>
Cash basis net assets, end of year	<u>\$ 777</u>	<u>\$ 1,085</u>

Total business type activities receipts for the fiscal year were \$1,270,634 compared to \$1,268,345 last year. The cash balance decreased \$308,001 from the prior year. Total disbursements for the fiscal year decreased by 0.8% to a total of \$1,493,019.

## INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As Mount Vernon completed the year, its governmental funds reported a combined fund balance of \$3,315,364, a decrease of \$1,291,768 from last year's total of \$4,607,133. 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 decreased \$23,608 from the prior year to \$462,125. In FY2008 the General Fund increased by \$121,152.
- The Local Option Sales Tax Fund cash balance increased \$52,426 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 decreased by \$15,904 to \$104,458 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 \$168,084, an increase of \$344,117 from the previous year. The ideal each year is to achieve a balance between expenditures and revenues, realizing that in each year, there are instances where funds for projects budgeted have not yet been spent, thereby creating a positive balance which will flow through into the next year as an expenditure to achieve this balance. 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.
- Subsequent to June 30, 2009, the City financed the construction of comprehensive sewer and water improvements projects, with the water improvements cost estimated at \$1,000,000 and \$2,500,000 for the sewer improvements. The 2 projects were sold as one bond, a new bond called a "Build America Bond" whereby the bonds were sold as taxable, with the City receiving a rebate from the Federal Government each 6 months after filing a form, bringing the true interest cost to 3.45% over a 20 year period. Rates for both water and sewer were adjusted to pay for these projects; additionally, due to the magnitude of the sewer projects funding and the declining sewer reserves, a "flat rate" of \$10.00 per month per domicile, as defined by Ordinance #5-4-2009B, was enacted. Had this new language been discussed, publicized and adopted, it was estimated that the flat rate per meter would have led to an increase of approximately \$25.00 per metered usage. The City intends to seek federal funding through the federal stimulus program initiative.
- The Debt Service Fund cash balance increased from \$2,950 to \$3,858 during the fiscal year.

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

- The Water Fund cash balance decreased by \$108,005 to \$42,991, due primarily to an increase in program expenditures.
- The Sewer Fund cash balance decreased by \$229,557 to \$453,869, 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 \$159,963 to \$186,321, 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.

## BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once, in May 2009. The amendment was approved on May 18, 2009, and resulted in an increase in operating disbursements related to a cost overrun of approximately \$67,000 for public safety, \$20,000 for public works, \$87,000 for general government, \$75,000 for community and economic development, and \$61,000 for culture and recreation. The City had sufficient cash balances to absorb these additional costs.

## DEBT ADMINISTRATION

At June 30, 2009, the City had \$5,655,000 in bonds and other long-term debt, compared to \$5,720,000 last year, as shown below.

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

	<u>Year Ended June 30,</u>	
	<u>2009</u>	<u>2008</u>
General obligation bonds	\$ 5,090	\$ 5,105
Revenue notes	<u>565</u>	<u>615</u>
Total	<u>\$ 5,655</u>	<u>\$ 5,720</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 \$9,819,324 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 2010 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 2009-2010. 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 2009-2010. 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.

### **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 tax revenues 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 2010**

Because many of Iowa's communities already tax the maximum levy limit and have used their emergency fund levy, most Iowa's 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 bear 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 2010. Amounts available for appropriation in the operating budget are \$9,610,420, an increase of 2.00% over the final 2009 budget. Property tax (benefiting from the increases in assessed valuations) and urban renewal tax increment financing collections, and 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. Cost estimates to repair and replace needed sewer infrastructure are approximately \$2,500,000, leading to adjusting the rates for the sewer utility. The City also drilled 2 new wells and 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 to cover these costs. The City of Mount Vernon has applied for various federal stimulus grants; 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 2009-2010 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, 2009, the City had received \$64,592 for this purpose.

For FY09, the City made the policy decision to cap future expenditures for this fund at \$45,000, regardless of the revenues generated from the Hotel/Motel Tax Fund. This same policy decision to cap the contribution at \$45,000 was made for FY10. In 2009, a 5-year Local Option Sales tax was passed in Linn County. Mount Vernon received its first monthly check in April, 2009. Projections over the next 5 years are that the city should receive approximately 2.5 million dollars, or \$500,000 per year, if projections of sales estimates hold true. The money collected is specific to infrastructure improvements such as water, sewer and streets improvements, with streets improvements probably receiving the bulk of the allotment. 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 increase by approximately \$3,638,832 by the close of 2010. 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>FY2010</u>	<u>FY2009</u>	<u>FY2008</u>	<u>FY2007</u>
Residential	45.5893%	44.0853%	45.5595%	45.9960%
Commercial	100%	99.7312%	100%	99.2570%
Agricultural	100%	100%	100%	100%
Industrial	100%	100%	100%	100%

The January 1, 2008 property tax valuation serves as the basis for calculating property taxes for 2010. 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

CITY OF MOUNT VERNON

Statement of Activities and Net Assets - Cash Basis

As of and for the year ended June 30, 2009

	<u>Disbursements</u>	<u>Program Receipts</u>	
		<u>Charges for Services</u>	<u>Operating Grants, Contributions and Restricted Interest</u>
<b>Functions/Programs:</b>			
Governmental activities:			
Public safety	\$ 647,294	\$ -	\$ 17,674
Public works	379,826	-	346,067
Culture and recreation	325,455	95,746	1,050
Community and economic development	69,516	-	-
General government	363,621	100,958	-
Debt service	602,659	-	-
Capital projects	2,110,990	-	-
	<u>4,499,361</u>	<u>196,704</u>	<u>364,791</u>
Total governmental activities			
Business type activities:			
Storm water	32,120	35,128	-
Water	511,778	429,127	-
Sewer	617,200	380,416	-
Solid waste	331,921	258,167	-
	<u>1,493,019</u>	<u>1,102,838</u>	<u>-</u>
Total business type activities			
Total	<u>\$ 5,992,380</u>	<u>\$ 1,299,542</u>	<u>\$ 364,791</u>

**General Receipts:**

Property and other city tax levied for:  
    General purposes  
Tax increment financing  
Local option sales tax  
Hotel/motel taxes  
Grants and contributions not restricted  
    to specific purposes  
Unrestricted interest on investments  
Bond proceeds  
Miscellaneous  
Transfers

Total general receipts and transfers

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

---

Governmental Activities	Business Type Activities	Total
\$ (629,620)	\$ -	\$ (629,620)
(33,759)	-	(33,759)
(228,659)	-	(228,659)
(69,516)	-	(69,516)
(262,663)	-	(262,663)
(602,659)	-	(602,659)
(2,110,990)	-	(2,110,990)
(3,937,866)	-	(3,937,866)
-	3,008	3,008
-	(82,651)	(82,651)
-	(236,784)	(236,784)
-	(73,754)	(73,754)
-	(390,181)	(390,181)
(3,937,866)	(390,181)	(4,328,047)
1,036,786	-	1,036,786
899,722	-	899,722
49,784	-	49,784
64,562	-	64,562
8,215	-	8,215
37,972	36,578	74,550
385,000	-	385,000
78,441	131,218	209,659
85,616	(85,616)	-
2,646,098	82,180	2,728,278

(continued)

CITY OF MOUNT VERNON

Statement of Activities and Net Assets - Cash Basis

As of and for the year ended June 30, 2009

	<u>Disbursements</u>	<u>Charges for Services</u>	<u>Program Receipts</u> Operating Grants, Contributions and Restricted Interest
Change in cash basis net assets			
Cash basis net assets, beginning of year			
Cash basis net assets, end of year			

**Cash Basis Net Assets**

Restricted:

Streets

Urban renewal purposes

Maintenance and improvements

Debt service

Cemetery perpetual care

Other purposes

Unrestricted

**Total Cash Basis Net Assets**

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

---

Governmental Activities	Business Type Activities	Total
(1,291,768)	(308,001)	(1,599,769)
4,607,132	1,084,765	5,691,897
\$ 3,315,364	\$ 776,764	\$ 4,092,128
\$ 750,862	\$ -	\$ 750,862
168,084	-	168,084
179,468	437,204	616,672
3,858	147,327	151,185
75,595	-	75,595
1,675,372	-	1,675,372
462,125	192,233	654,358
\$ 3,315,364	\$ 776,764	\$ 4,092,128

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, 2009

	General	Special Revenue		
		Road Use Tax	Urban Renewal Tax Increment	Local Option Sales Tax
Receipts:				
Property tax	\$ 657,458	\$ -	\$ -	\$ -
Tax increment financing	-	-	899,722	-
Other city tax	76,343	-	-	49,784
Licenses and permits	84,542	-	-	-
Use of money and property	27,885	-	7,039	7,039
Intergovernmental	23,240	346,067	-	-
Charges for service	95,746	-	-	-
Miscellaneous	57,928	17,855	-	-
Total receipts	1,023,142	363,922	906,761	56,823
Disbursements:				
Operating:				
Public safety	623,113	-	-	-
Public works	-	379,826	-	-
Culture and recreation	321,058	-	-	4,397
Community and economic development	69,516	-	-	-
General government	283,779	-	-	-
Debt service	-	-	-	-
Capital projects	-	-	-	-
Total disbursements	1,297,466	379,826	-	4,397
Excess (deficiency) of receipts over (under) disbursements	(274,324)	(15,904)	906,761	52,426
Other financing sources (uses):				
Bond proceeds	-	-	-	-
Sale of capital assets	535	-	-	-
Operating transfers in	250,181	-	-	-
Operating transfers out	-	-	(562,644)	-
Total other financing sources (uses)	250,716	-	(562,644)	-

<u>Capital Projects</u>				
<u>Debt Service</u>	<u>2006/2009 Water Improvement</u>	<u>2007 Street Improvement</u>	<u>Nonmajor</u>	<u>Total</u>
\$ -	\$ -	\$ -	\$ 367,548	\$ 1,025,006
-	-	-	-	899,722
-	-	-	-	126,127
-	-	-	-	84,542
1,109	7,039	4,277	-	54,388
-	-	-	-	369,307
-	-	-	-	95,746
-	4,760	17	1,044	81,604
<u>1,109</u>	<u>11,799</u>	<u>4,294</u>	<u>368,592</u>	<u>2,736,442</u>
-	-	-	24,181	647,294
-	-	-	-	379,826
-	-	-	-	325,455
-	-	-	-	69,516
-	-	-	79,842	363,621
602,659	-	-	-	602,659
-	620,356	1,153,607	337,027	2,110,990
<u>602,659</u>	<u>620,356</u>	<u>1,153,607</u>	<u>441,050</u>	<u>4,499,361</u>
<u>(601,550)</u>	<u>(608,557)</u>	<u>(1,149,313)</u>	<u>(72,458)</u>	<u>(1,762,919)</u>
-	-	-	385,000	385,000
-	-	-	-	535
602,458	-	-	-	852,639
-	-	-	(204,379)	(767,023)
<u>602,458</u>	<u>-</u>	<u>-</u>	<u>180,621</u>	<u>471,151</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, 2009

	<u>Special Revenue</u>			
	<u>General</u>	<u>Road Use Tax</u>	<u>Urban Renewal Tax Increment</u>	<u>Local Option Sales Tax</u>
Net change in cash balances	(23,608)	(15,904)	344,117	52,426
Cash balances, beginning of year	<u>485,733</u>	<u>120,362</u>	<u>(176,033)</u>	<u>1,551,487</u>
Cash balances, end of year	<u>\$ 462,125</u>	<u>\$ 104,458</u>	<u>\$ 168,084</u>	<u>\$ 1,603,913</u>
<b>Cash Basis Fund Balances</b>				
Reserved:				
Debt service	\$ -	\$ -	\$ -	\$ -
Unreserved:				
General fund	462,125	-	-	-
Special revenue funds	-	104,458	168,084	1,603,913
Capital projects fund	-	-	-	-
Permanent fund	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total cash basis fund balance	<u>\$ 462,125</u>	<u>\$ 104,458</u>	<u>\$ 168,084</u>	<u>\$ 1,603,913</u>

Exhibit B

<u>Debt Service</u>	<u>Capital Projects</u>			<u>Total</u>
	<u>2006/2009 Water Improvement</u>	<u>2007 Street Improvement</u>	<u>Nonmajor</u>	
908	(608,557)	(1,149,313)	108,163	(1,291,768)
<u>2,950</u>	<u>671,207</u>	<u>1,795,717</u>	<u>155,709</u>	<u>4,607,132</u>
<u>\$ 3,858</u>	<u>\$ 62,650</u>	<u>\$ 646,404</u>	<u>\$ 263,872</u>	<u>\$ 3,315,364</u>
\$ 3,858	\$ -	\$ -	\$ -	\$ 3,858
-	-	-	-	462,125
-	-	-	71,459	1,947,914
-	62,650	646,404	116,818	825,872
-	-	-	75,595	75,595
<u>\$ 3,858</u>	<u>\$ 62,650</u>	<u>\$ 646,404</u>	<u>\$ 263,872</u>	<u>\$ 3,315,364</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, 2009

	<u>Water</u>	<u>Sewer</u>	<u>Solid Waste</u>	<u>Nonmajor Storm Water</u>	<u>Total</u>
Operating receipts:					
Use of money and property	\$ 17,615	\$ 12,820	\$ 5,948	\$ 194	\$ 36,577
Charges for service	429,127	380,416	258,167	35,129	1,102,839
Miscellaneous	21,242	15,812	94,164	-	131,218
Total operating receipts	467,984	409,048	358,279	35,323	1,270,634
Operating disbursements:					
Business type activities	511,778	536,157	331,921	32,120	1,411,976
Excess (deficiency) of operating receipts over (under) operating disbursements	(43,794)	(127,109)	26,358	3,203	(141,342)
Non-operating disbursements:					
Debt service	-	81,043	-	-	81,043
Excess (deficiency) of receipts over (under) disbursements	(43,794)	(208,152)	26,358	3,203	(222,385)
Other financing sources (uses):					
Operating transfers in	-	-	-	-	-
Operating transfers out	(64,211)	(21,405)	-	-	(85,616)
Total other financing sources (uses)	(64,211)	(21,405)	-	-	(85,616)
Net change in cash balances	(108,005)	(229,557)	26,358	3,203	(308,001)
Cash balances, beginning of year	150,996	683,426	159,963	90,380	1,084,765
Cash balances, end of year	\$ 42,991	\$ 453,869	\$ 186,321	\$ 93,583	\$ 776,764
<b>Cash Basis Fund Balances:</b>					
Reserved for maintenance and improvements	\$ 262,604	\$ 174,600	\$ -	\$ -	\$ 437,204
Reserved for debt service	-	147,327	-	-	147,327
Unreserved	(219,613)	131,942	186,321	93,583	192,233
Total cash basis fund balances	\$ 42,991	\$ 453,869	\$ 186,321	\$ 93,583	\$ 776,764

## CITY OF MOUNT VERNON

### Notes to Financial Statements

June 30, 2009

#### (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, 2009

(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, 2009

(1) Summary of Significant Accounting Policies (continued)

B. Basis of Presentation (continued)

Special Revenue (continued):

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

Capital Projects:

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

The 2006/2009 Water Improvement Fund is used to account for water improvement projects.

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, 2009

#### (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, 2009, disbursements exceeded the amount budgeted in the capital projects function.

##### E. Property Tax Calendar

The City's property tax rates were extended against the assessed valuation of the City as of January 1, 2007 to compute the amounts which became liens on property on July 1, 2008. These taxes were due and payable in two installments on September 30, 2008 and March 31, 2009, 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, 2009, 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 November 17, 2008, the City issued \$385,000 in General Obligation Bonds with an average interest rate of 3.11 percent to fund various capital improvement projects. Net proceeds after payment of issuance costs and underwriter's premium of \$12,000 was \$373,000. Interest is payable semi-annually on December 1 and June 1, commencing December 1, 2009. Principal payments are due each June 1, commencing June 2010, through June 2012.

**CITY OF MOUNT VERNON**  
**Notes to Financial Statements**

June 30, 2009

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

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

Year Ending June 30,	General Obligation Bonds & Notes		Revenue Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2010	\$ 645,000	\$ 203,436	\$ 50,000	\$ 28,443	\$ 695,000	\$ 231,879
2011	510,000	174,970	55,000	26,117	565,000	201,087
2012	530,000	155,590	55,000	23,450	585,000	179,040
2013	460,000	135,263	60,000	20,783	520,000	156,046
2014	480,000	117,175	60,000	17,752	540,000	134,927
2015	505,000	98,245	65,000	14,723	570,000	112,968
2016	525,000	78,255	70,000	11,440	595,000	89,695
2017	395,000	57,400	75,000	7,800	470,000	65,200
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>\$5,090,000</u></b>	<b><u>\$1,148,534</u></b>	<b><u>\$ 565,000</u></b>	<b><u>\$ 154,408</u></b>	<b><u>\$5,655,000</u></b>	<b><u>\$1,302,942</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, 2009

#### (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, 2009 expire on June 30, 2010.

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, 2010.

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.

The City is required to maintain net sewer revenues of not less than 125% of the annual debt service requirement. In fiscal year 2009 the amount of net revenues required to meet this requirement was \$100,960. The City did not meet this requirement for the year ended June 30, 2009.

#### (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 4.10% of their annual covered salary and the City is required to contribute 6.35% 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, 2009, 2008 and 2007 were \$68,561, \$63,742 and \$57,867, respectively, equal to the required contributions for each year.

CITY OF MOUNT VERNON  
Notes to Financial Statements

June 30, 2009

**(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, 2009, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 60,290
Sick leave	<u>176,092</u>
<b>Total</b>	<b><u>\$ 236,382</u></b>

This liability has been computed based on rates of pay in effect at June 30, 2009.

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 \$88,046 at June 30, 2009.

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, 2009, this amount approximates \$54,760.

**(6) Meter Deposits**

At June 30, 2009, the City was holding meter deposits from individuals in the amount of \$8,336.

**CITY OF MOUNT VERNON**  
**Notes to Financial Statements**

June 30, 2009

**(7) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2009 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Special Revenue:	
	Urban Renewal Tax Increment	\$ 562,644
	Enterprise:	
	Water	<u>39,814</u>
		<u>602,458</u>
General Fund	Enterprise:	
	Water	24,397
	Sewer	21,405
	Special Revenue:	
	Employee Benefits	<u>204,379</u>
		<u>250,181</u>
Total		<u>\$ 852,639</u>

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

**(8) Related Party Transaction**

The City had business transactions between the City and an immediate family member of a City official totaling \$17,125 during the year ended June 30, 2009.

**(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 2009 Sanitary Sewer Project Fund and the Water Fund had deficit balances of \$320,741 and \$219,614, respectively, at June 30, 2009. The Project Fund deficit balance was a result of project costs incurred prior to availability of funds. This deficit will be eliminated next year upon receipt of bond proceeds. The Water Fund deficit balance will be eliminated through increases in water rates.

**CITY OF MOUNT VERNON**  
**Notes to Financial Statements**

**June 30, 2009**

**(11) Commitments**

The City has entered into various contracts, most of which are for capital projects, totaling \$668,931. Through June 30, 2009, \$404,597 has been paid towards these commitments.

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.

**(12) Subsequent Events**

**Debt issuance.** On July 1, 2009, the City advance refunded \$565,000 in 1998 sewer revenue capital loan notes, with an average interest rate of 5.11 percent, through the issuance of \$400,000 in General Obligation Bonds and from transfers from Sewer funds. The new bonds carry an average interest rate of 3.37 percent. Net proceeds of \$398,000 (after payment of issuance costs and underwriter's premium of \$2,000) and the amounts transferred from the Sewer funds 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 sewer revenue capital loans as the same become due to and including June 1, 2018, and (ii) prepayment of the principal of the 1998 sewer revenue capital loans on June 1, 2018.

As a result, \$565,000 of the 1998 sewer revenue capital loan notes will be considered to be defeased and the liability for those notes will be removed from the City's indebtedness amount. The City advance refunded the 1998 sewer revenue capital loan notes to reduce its total debt service payments over the next ten years by almost \$252,000 and to obtain an economic gain (difference between the present value of the debt service payments on the old and new debt) of approximately \$31,000.

On August 26, 2009, the City issued \$3,500,000 in General Obligation Taxable Bonds with an average interest rate of 3.40 percent to finance water and sewer improvements. Net proceeds of \$3,472,000 (after payment of issuance costs and underwriter's premium of \$28,000) were deposited into the Water and Sewer Capital Improvement Funds.

**New accounting standard.** The City of Mount Vernon will be implementing GASB Statement No. 45, Financial Reporting by Employers for Postemployment Benefit Plans Other Than Pension Plans, during the year ending June 30, 2010. This statement establishes uniform accounting and financial reporting standards for state and local governmental entities related to postemployment benefits other than pension plans ("OPEB").

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

**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, 2009

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 1,025,006	\$ -	\$ -
Tax increment financing	899,722	-	-
Other city tax	126,127	-	-
Licenses and permits	84,542	-	-
Use of money and property	54,388	36,577	-
Intergovernmental	369,307	-	-
Charges for service	95,746	1,102,839	-
Miscellaneous	81,604	131,218	-
	<u>2,736,442</u>	<u>1,270,634</u>	<u>-</u>
Total receipts			
Disbursements:			
Public safety	647,294	-	-
Public works	379,826	-	-
Culture and recreation	325,455	-	-
Community and economic development	69,516	-	-
General government	363,621	-	-
Debt service	602,659	-	-
Capital projects	2,110,990	-	-
Business type activities	-	1,493,019	-
	<u>4,499,361</u>	<u>1,493,019</u>	<u>-</u>
Total disbursements			
Excess (deficiency) of receipts over (under) disbursements	(1,762,919)	(222,385)	-
Other financing sources, net	<u>471,151</u>	<u>(85,616)</u>	<u>-</u>
Deficiency of receipts and other financing sources under disbursements and other financing uses	(1,291,768)	(308,001)	-
Balances beginning of year	<u>4,607,132</u>	<u>1,084,765</u>	<u>-</u>
Balances end of year	<u>\$ 3,315,364</u>	<u>\$ 776,764</u>	<u>\$ -</u>

Net	Budgeted Amounts		Final to Net Variance
	Original	Final	
\$ 1,025,006	\$ 1,000,051	\$ 1,000,051	\$ 24,955
899,722	-	-	899,722
126,127	1,685,680	1,700,680	(1,574,553)
84,542	44,800	44,800	39,742
90,965	154,070	154,070	(63,105)
369,307	364,385	424,385	(55,078)
1,198,585	1,324,000	1,324,000	(125,415)
212,822	52,700	52,700	160,122
<u>4,007,076</u>	<u>4,625,686</u>	<u>4,700,686</u>	<u>(693,610)</u>
647,294	603,399	670,199	22,905
379,826	360,270	380,270	444
325,455	314,272	374,822	49,367
69,516	53,460	128,460	58,944
363,621	299,996	388,646	25,025
602,659	2,430,000	2,430,000	1,827,341
2,110,990	1,314,675	1,314,675	(796,315)
1,493,019	4,915,314	4,915,314	3,422,295
<u>5,992,380</u>	<u>10,291,386</u>	<u>10,602,386</u>	<u>4,610,006</u>
(1,985,304)	(5,665,700)	(5,901,700)	3,916,396
<u>385,535</u>	<u>4,085,000</u>	<u>4,085,000</u>	<u>(3,699,465)</u>
(1,599,769)	(1,580,700)	(1,816,700)	216,931
<u>5,691,897</u>	<u>6,584,241</u>	<u>6,584,241</u>	<u>(892,344)</u>
<u>\$ 4,092,128</u>	<u>\$ 5,003,541</u>	<u>\$ 4,767,541</u>	<u>\$ (675,413)</u>

## CITY OF MOUNT VERNON

### Notes to Required Supplementary Information - Budgetary Reporting

June 30, 2009

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 nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. 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 \$75,000 and disbursements by \$311,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2009, disbursements exceeded the amounts budgeted in the debt service, capital projects and business type activities functions.

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, 2009

	Special Revenue			
	Insurance Levy	Employee Benefits	Emergency Levy	Low- Moderate Income
Receipts:				
Property tax	\$ 85,337	\$ 207,315	\$ 21,274	\$ -
Use of money and property	-	-	-	-
Miscellaneous	-	-	-	-
Total receipts	<u>85,337</u>	<u>207,315</u>	<u>21,274</u>	<u>-</u>
Disbursements:				
Operating:				
Public safety	-	-	-	-
General government	79,842	-	-	-
Capital projects	-	-	-	-
Total disbursements	<u>79,842</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts over (under) disbursements	5,495	207,315	21,274	-
Other financing uses:				
Bonds proceeds	-	-	-	-
Operating transfers out	-	(204,379)	-	-
Net change in cash balances	5,495	2,936	21,274	-
Cash balances, beginning of year	<u>31,217</u>	<u>-</u>	<u>-</u>	<u>10,537</u>
Cash balances, end of year	<u>\$ 36,712</u>	<u>\$ 2,936</u>	<u>\$ 21,274</u>	<u>\$ 10,537</u>
<b>Cash Basis Fund Balances</b>				
Unreserved:				
Special revenue funds	\$ 36,712	\$ 2,936	\$ 21,274	\$ 10,537
Capital project funds	-	-	-	-
Permanent fund	-	-	-	-
Total cash basis fund balances	<u>\$ 36,712</u>	<u>\$ 2,936</u>	<u>\$ 21,274</u>	<u>\$ 10,537</u>

Schedule 1

Capital Projects				Permanent	
Waste Water Treatment Plant	2009 Sanitary Sewer	Fire Department	Capital Projects	Cemetery Perpetual Care	Total
\$ -	\$ -	\$ 53,200	\$ 422	\$ -	\$ 367,548
-	-	-	-	-	-
-	-	-	304	740	1,044
-	-	53,200	726	740	368,592
-	-	24,181	-	-	24,181
-	-	-	-	-	79,842
3,969	320,741	-	12,317	-	337,027
3,969	320,741	24,181	12,317	-	441,050
(3,969)	(320,741)	29,019	(11,591)	740	(72,458)
-	-	232,883	152,117	-	385,000
-	-	-	-	-	(204,379)
(3,969)	(320,741)	261,902	140,526	740	108,163
3,969	-	-	35,131	74,855	155,709
<u>\$ -</u>	<u>\$ (320,741)</u>	<u>\$ 261,902</u>	<u>\$ 175,657</u>	<u>\$ 75,595</u>	<u>\$ 263,872</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 71,459
-	(320,741)	261,902	175,657	-	116,818
-	-	-	-	75,595	75,595
<u>\$ -</u>	<u>\$ (320,741)</u>	<u>\$ 261,902</u>	<u>\$ 175,657</u>	<u>\$ 75,595</u>	<u>\$ 263,872</u>

CITY OF MOUNT VERNON

Schedule of Indebtedness

Year ended June 30, 2009

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
General obligation bonds and capital loan notes:			
2006 Water improvements	April 1, 2006	3.625-3.90%	\$1,225,000
2007 Street improvements	May 17, 2007	4%	4,410,000
2008 Capital improvements	Nov. 17, 2008	2.95-3.30%	385,000
Total			
Revenue notes:			
1998 Sewer revenue notes (1998 wastewater treatment plant expansion)	Sept. 1, 1998	4.00-5.20%	\$1,000,000

Schedule 2

<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
\$1,025,000	\$ -	\$ 115,000	\$ 910,000	\$ 38,659	\$ -
4,080,000	-	285,000	3,795,000	163,200	-
<u>-</u>	<u>385,000</u>	<u>-</u>	<u>385,000</u>	<u>-</u>	<u>-</u>
<u>\$5,105,000</u>	<u>\$ 385,000</u>	<u>\$ 400,000</u>	<u>\$5,090,000</u>	<u>\$ 201,859</u>	<u>\$ -</u>
<u>\$ 615,000</u>	<u>\$ -</u>	<u>\$ 50,000</u>	<u>\$ 565,000</u>	<u>\$ 30,768</u>	<u>\$ -</u>

## CITY OF MOUNT VERNON

## Bond and Note Maturities

June 30, 2009

Year Ending June 30	<u>General Obligation Bonds and Capital Loan Notes</u>						
	<u>2007 Street Improvements</u>		<u>2006 Water Improvements</u>		<u>2008 Capital Improvements</u>		<u>Total</u>
	<u>Issued May 17, 2007</u>		<u>Issued April 1, 2006</u>		<u>Issued November 17, 2008</u>		
<u>Interest Rates</u>	<u>Amount</u>	<u>Interest Rates</u>	<u>Amount</u>	<u>Interest Rates</u>	<u>Amount</u>		
2010	4.00%	\$ 300,000	3.700%	\$ 120,000	2.95%	\$ 225,000	\$ 645,000
2011	4.00	310,000	3.750	120,000	3.10	80,000	510,000
2012	4.00	325,000	3.750	125,000	3.30	80,000	530,000
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	225,000	-	-	-	-	225,000
<b>Total</b>		<u>\$ 3,795,000</u>		<u>\$ 910,000</u>		<u>\$ 385,000</u>	<u>\$ 5,090,000</u>

Year Ending June 30	<u>Revenue Notes</u>	
	<u>1998 Sewer Revenue</u>	
	<u>Notes (1998 Wastewater Treatment Plant Expansion)</u>	
	<u>Issued September 1, 1998</u>	
	<u>Interest Rates</u>	<u>Amount</u>
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	75,000
<b>Total</b>		<u>\$ 565,000</u>

## CITY OF MOUNT VERNON

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

## For the Last Six Years

	Years Ended June 30,					
	2009	2008	2007	2006	2005	2004
Receipts:						
Property tax	\$ 1,025,006	\$ 1,142,527	\$ 991,801	\$ 854,772	\$ 876,918	\$ 816,454
Tax increment financing collections	899,722	333,708	595,021	739,361	613,934	733,812
Other city tax	126,127	74,599	103,758	560,300	518,229	138,678
Licenses and permits	84,542	69,276	57,439	90,086	72,072	44,181
Use of money and property	54,388	89,050	102,637	43,350	29,333	24,856
Intergovernmental	369,307	367,161	355,094	342,940	333,602	346,631
Charges for service	95,746	120,979	107,965	113,589	93,816	103,887
Miscellaneous	81,604	108,347	71,189	84,446	117,918	132,311
Total	<u>\$ 2,736,442</u>	<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:	\$ 647,294	\$ 576,270	\$ 548,890	\$ 528,275	\$ 518,300	\$ 477,261
Public safety	379,826	330,170	264,064	380,354	363,862	297,355
Public works	325,455	294,977	284,887	269,225	310,357	265,166
Culture and economic development	69,516	77,194	54,270	38,541	21,715	7,240
General government	363,621	288,571	270,390	265,636	265,671	203,634
Debt service	602,659	728,040	2,366,083	511,753	518,900	511,520
Capital projects	<u>2,110,990</u>	<u>1,098,329</u>	<u>508,431</u>	<u>568,756</u>	<u>316,288</u>	<u>216,604</u>
Total	<u>\$ 4,499,361</u>	<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, 2009, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated November 13, 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, including a 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 item II-B-09 is a material weakness.

### **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, 2009 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 Gunderson LLP*

Cedar Rapids, Iowa  
November 13, 2009

CITY OF MOUNT VERNON

Schedule of Findings

Year ended June 30, 2009

**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-09: 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, 2009

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

SIGNIFICANT DEFICIENCIES: (CONTINUED)

**II-A-09: 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-09: 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.

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.

CITY OF MOUNT VERNON

Schedule of Findings

Year ended June 30, 2009

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

**SIGNIFICANT DEFICIENCIES:** (CONTINUED)

**II-B-09: Preparation of Financial Statements** (continued)

Recommendation:

We recommend that sufficient financial statement and disclosure review procedures be performed by an individual possessing a thorough understanding of applicable 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 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 are extensive. As a result, the City of Mount Vernon has relied on the independent auditor to identify disclosures required in the financial statements. The City has established a review process to ensure that account balances are monitored to ensure that they are not materially misstated.

Conclusion:

Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

CITY OF MOUNT VERNON

Schedule of Findings

Year ended June 30, 2009

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

III-A-09 Certified Budget - Disbursements during the year ended June 30, 2009 exceeded the amounts budgeted in the debt service, capital projects and business type activities functions. 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-09 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-09 Travel Expense - No expenditures of City money for travel expenses of spouses of City officials or employees were noted.

III-D-09 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, father of owner of Jim's Tree Service	Tree Maintenance	\$ 17,125

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-09 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-09 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, 2009

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

III-G-09 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-H-09 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-I-09 Economic Development - The City paid \$60,000 to the Mount Vernon-Lisbon Community Development Group 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, 2009

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

III-J-09     Financial Condition - The 2009 Sanitary Sewer Project Fund and the Water Fund had deficit balances at June 30, 2009 of \$320,741 and \$219,614, respectively.

Recommendation - The City should investigate alternatives to eliminate these deficits in order to return these funds to a sound financial position.

Response - The Project Fund deficit was due to capital project costs incurred before bond proceeds were received. This deficit will be eliminated next year. The Water Fund deficit will be eliminated through increases in water and sewer rates as well as a flat rate sewer fee.

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

Christi O'Dell, Associate