

CITY OF MOUNT VERNON, IOWA
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2010

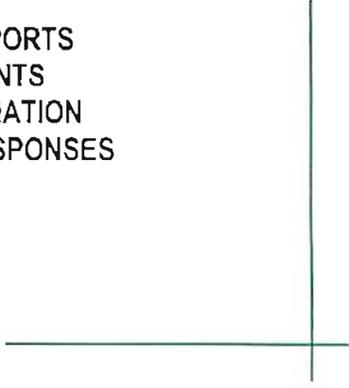


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CITY OF MOUNT VERNON

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Paul Tuerler	Mayor	December 31, 2011
Diane Hoffman	Mayor Pro Tem	December 31, 2011
Neil Rud	Council Member	December 31, 2011
Scott Peterson	Council Member	December 31, 2011
Marty Christensen	Council Member	December 31, 2013
Slaton Anthony	Council Member	December 31, 2013
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, 2010, which collectively comprise the City's basic financial statements as 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 that 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 accounting principles generally accepted in the United States of America.

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, Iowa as of June 30, 2010, 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 January 19, 2011 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 the internal control over financial reporting or on 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.

The management's discussion and analysis and budgetary comparison information on pages 6 through 16 and 36 through 38 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. 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. However, 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, Iowa'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 six years ended June 30, 2009 (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 the 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 Henderson LLP

Cedar Rapids, Iowa
January 19, 2011

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, 2010. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2010 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities increased 131.8%, from \$3,121,977 to \$7,237,431, from fiscal year 2009 to fiscal year 2010. The first local option sales tax (LOST-1) was passed in 2001 and again for 2003 and 2004 to allow for an extra 1 cent collection. Total of all LOST funds accumulated as of June 30, 2010, amounts to \$2,103,928. The revenues received from LOST-1 receipts are to be utilized for the construction of a new fire station and a new community center, with the second local option sales tax (LOST-2) passed in 2009 dedicated for infrastructure-related projects. A percentage formula for the 2001/2003-2004 for a new fire station and a new community center as to which project will receive funding and in what amounts was not on the ballot initiative that was passed. ******(Note: In July, 2010, the City Council, by Resolution, split the remaining revenue into two separate funds for a new fire station and a new community center, with \$400,000 being set-aside for a new community center, and the balance being set aside for the planned fire station project, projected to be approved in the fall of 2010). Another local option sales tax was passed county-wide in 2009 with revenues specifically for infrastructure related projects, with revenues from that initiative appearing in spring of 2009. The two local option sales tax special revenue funds have been separated into two funds administratively, with the LOST-1 fund (fire station/community center) balance standing at \$1,523,745.43 as of June 30, 2010, and the LOST-2 fund standing at \$580,182.43, for a cumulative total of \$2,103,928 as of June 30, 2010. Total revenues in fiscal year 2010 include \$3,970,000 of bond proceeds compared to \$385,000 received in fiscal year 2009.
- Disbursements for governmental activities increased .1%, from \$4,499,361 to \$4,505,278, from fiscal year 2009 to fiscal year 2010. Public works, culture and recreation, general government and debt service disbursements increased approximately \$13,108, \$33,521, \$8,672 and \$992,662, respectively. Public safety, community and economic development and capital projects disbursements decreased \$14,716, \$1,568 and \$1,025,762, respectively.
- The City's total cash basis net assets increased 70.8%, from \$4,092,126 to \$6,989,736, from June 30, 2009 to June 30, 2010. Of this amount, the assets of the governmental activities increased by \$3,076,981 and the assets of the business type activities decreased by \$179,371. The majority of this increase in cash basis net assets is attributable to the receipt of bond proceeds totaling \$3,970,000.
- In FY 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 two 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 six 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 per month per domicile, as defined by Ordinance #5-4-2009B, was enacted. Had this new language not been adopted

by Ordinance as was discussed, publicized and adopted, it was estimated that the flat rate per meter would have led to an increase of approximately \$25 per metered usage. Additionally, a financial analysis was performed on the revenue stream of the water utility versus water utility revenues, and it was determined that the water rate needed to be raised by 34 percent; however, Council opted to incrementally increase water rates by 10 percent each year for 3 years, and thereafter to increase rates for 3 percent annually. The sewer rate was also increased 10 percent the first year with companion language calling for an additional 3 percent increase every year thereafter. The City intends to seek federal funding through the federal stimulus program initiative.

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 increased from a year ago, from \$3,315,363 to \$6,392,344. The vast majority of this increase is attributable to \$3,970,000 of bond proceeds received this year. The analysis that follows focuses on the changes in cash balances for governmental activities.

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

	<u>Year Ended June 30,</u>	
	<u>2010</u>	<u>2009</u>
Receipts:		
Program receipts:		
Charges for service	\$ 194	\$ 197
Operating grants, contributions and restricted interest	389	365
Capital grants, contributions and restricted interest	18	-
General receipts:		
Property tax	1,937	2,001
Local option sales tax	534	50
Hotel/motel taxes	54	65
Grants and contributions not restricted to specific purposes	10	8
Unrestricted interest on investments	37	38
Other general receipts	94	13
Bond proceeds	<u>3,970</u>	<u>385</u>
Total receipts	<u>7,237</u>	<u>3,122</u>
Disbursements:		
Public safety	633	647
Public works	393	380
Culture and recreation	359	325
Community and economic development	68	70
General government	372	364
Debt service	1,595	603
Capital projects	<u>1,085</u>	<u>2,111</u>
Total disbursements	<u>4,505</u>	<u>4,500</u>
Change in cash basis net assets before transfers	2,732	(1,378)
Transfers, net	<u>345</u>	<u>86</u>
Change in cash basis net assets	3,077	(1,292)
Cash basis net assets, beginning of year	<u>3,315</u>	<u>4,607</u>
Cash basis net assets, end of year	<u>\$ 6,392</u>	<u>\$ 3,315</u>

The City's total receipts for governmental activities increased by 131.8%, or \$4,115,453. The total cost of all programs and services increased by \$5,917, or .1%, with no new programs added this year.

The City property tax rate for 2010 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 17 years. The property tax levy rate for fiscal year 2010 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 projected to increase.

The cost of all governmental activities this year was \$4,505,278, compared to \$4,499,361 last year. However, as shown in the Statement of Activities and Net Assets - Cash Basis on pages 18-21, the amount taxpayers ultimately financed for these activities was only \$3,904,012 because some of the cost was paid by those who directly benefited from the programs (charges for service \$193,962) or by other governments and organizations that subsidized certain programs with grants and contributions of \$407,304. Overall, the City's governmental activities program receipts, including intergovernmental aid and fees for service, increased in fiscal year 2010 from \$561,495 to \$601,266. The City paid for the remaining "public benefit" portion of governmental activities (\$3,904,012) with taxes (some of which could only be used for certain programs) and with other receipts, such as interest and other general receipts.

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

	<u>Year Ended June 30,</u>	
	<u>2010</u>	<u>2009</u>
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 471	\$ 429
Sewer	699	381
Solid waste	277	258
Storm water	35	35
General receipts:		
Unrestricted interest on investments	25	37
Other general receipts	<u>114</u>	<u>131</u>
Total receipts	<u>1,621</u>	<u>1,271</u>
Disbursements:		
Water	497	512
Sewer	526	617
Solid waste	371	332
Storm water	<u>62</u>	<u>32</u>
Total disbursements	<u>1,456</u>	<u>1,493</u>
Change in cash basis net assets before transfers	165	(222)
Transfers, net	<u>(345)</u>	<u>(86)</u>
Change in cash basis net assets	(180)	(308)
Cash basis net assets, beginning of year	<u>777</u>	<u>1,085</u>
Cash basis net assets, end of year	<u>\$ 597</u>	<u>\$ 777</u>

Total business type activities receipts for the fiscal year were \$1,621,530 compared to \$1,270,634 last year. The cash balance decreased \$179,371 from the prior year. Total disbursements for the fiscal year decreased by 2.5% to a total of \$1,456,073.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As Mount Vernon completed the year, its governmental funds reported a combined fund balance of \$6,392,344, an increase of \$3,076,980 from last year's total of \$3,315,364. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$66,562 from the prior year to \$528,686.
- The Special Revenue, 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 \$347,114, an increase of \$179,030 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.
- The Special Revenue, Local Option Sales Tax Fund cash balance increased \$500,016 during the fiscal year (LOST-1 decreased \$30,383 and LOST-2 increased \$530,399). LOST-1 funds totaling \$400,000 will be used towards a new community center and the remaining balance of approximately \$1.1 million will be used toward the estimated \$1.8 million cost for the construction of a new fire station. LOST-2 funds will be used for infrastructure-related improvement projects.
- The Debt Service Fund cash balance decreased from \$3,859 to (\$228,979) during the fiscal year. This decrease was the result of unbudgeted debt service payments.
- The Capital Projects, 2006/2009 Water Improvement and 2009 Sanitary Sewer Funds cash balances increased \$770,881 and \$2,253,149, respectively, during the fiscal year. These increases were the result of bond proceeds received totaling \$1,040,900 and \$2,431,100, respectively.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Enterprise, Water Fund cash balance decreased by \$58,764 to \$(15,774), due primarily to an increase in program expenditures.
- The Enterprise, Sewer Fund cash balance decreased by \$104,770 to \$349,099, due primarily to increases in sewer operational expenses and equipment maintenance and repairs over the prior year.

- The Enterprise, Solid Waste Fund cash balance increased from \$186,321 to \$189,992, 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 2010. The amendment was approved on May 17, 2010, and resulted in an increase in operating disbursements related to cost overruns of approximately \$16,000 for public safety and \$55,880 for culture and recreation. An additional \$312,423 of expenditures were added to the budget for debt service. These funds were used to pay off a 1998 debt issuance. The City had sufficient cash balances to absorb these additional costs.

The City's revenue budget was amended to add an additional \$42,545 of property tax receipts, \$550,000 of local option sales tax receipts and \$8,225 of additional miscellaneous receipts.

The City exceeded the amounts budgeted in the public works, general government and debt service functions during the year ended June 30, 2010, due to unanticipated increases in insurance premiums after the budget amendment was set in May (worker's compensation and health insurance) and unanticipated increases in attorney fees; the debt service fund exceeded budget as a result of debt being issued and unbudgeted; and expenditures in the RUT fund being recorded instead of in a capital projects fund for said same.

DEBT ADMINISTRATION

At June 30, 2010, the City had \$8,405,000 in bonds and other long-term debt, compared to \$5,655,000 last year, as shown below.

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

	<u>Year Ended June 30,</u>	
	<u>2010</u>	<u>2009</u>
General obligation bonds	\$ 8,405	\$ 5,090
Revenue notes	-	565
Total	<u>\$ 8,405</u>	<u>\$ 5,655</u>

Debt increased as a result of issuing general obligation bonds for a water improvement and sanitary sewer project.

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 \$8,405,000 is below its constitutional debt limit of \$10,181,722 as of June 30, 2010.

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 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. 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. 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 increased rates 6 to 9% starting in the spring of 2009, which affected the last half of fiscal year 2009 and all of fiscal year 2010.

It is anticipated that all energy costs will continue to rise in 2010-2011, 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 2010-2011. If this scenario occurs, it is possible that there may be increasing drops 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 a continuing recession and market liquidity.

Revenue Shortfalls

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 2011

Because many of Iowa's communities already tax the maximum levy limit and have used their emergency fund levy, most Iowans' property tax rates have limited capacity to increase. This lack of capacity to increase is demonstrated with Iowa falling far below most states in property tax increases. As opposed to a majority of states, Iowa communities could not answer shortfalls by increasing property taxes. 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 2011. Amounts available for appropriation in the operating budget are \$11,666,465, an increase of \$2,259,507 over the final 2010 budget, the majority of which (\$1,816,584) is for additional planned capital improvements projects. It is anticipated that the new fire station will start construction in fiscal year 2011, with an early estimated cost in excess of 1.8 million dollars; additionally, the long-planned sewer improvements project is anticipated to be let this year, as well as various street reconstruction and water main projects. 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 function, street reconstruction and maintenance, the afore-mentioned construction 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 were approximately \$2,500,000, leading to adjusting the rates for the sewer utility. The City also drilled two new wells and a second municipal water treatment in the Northeast sector of town to accommodate a growing demand for water and to stay proactive with regards to consumer demand and anticipated growth. This initiative will cost approximately \$1 million, also necessitating a rise in consumer rates and a bond sale to cover these costs. The City of Mount Vernon has applied for various federal and state grants, one of which is intended to urbanize and either signalize or create a roundabout at the intersection of Highway 30 and Highway One corridor; 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, 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 2010-2011 budget; however, Council made a conscious policy decision to transfer all of the funds, up to a cap of \$45,000, 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. 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 fiscal year 2010 books on June 30, 2010, the City had received \$53,716 for this purpose.

For fiscal year 2010 and 2011, 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. 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 \$4,570,847 by the close of fiscal year 2011. 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 2008 through 2011 are as follows:

<u>Property Classification</u>	<u>FY2011</u>	<u>FY2010</u>	<u>FY2009</u>	<u>FY2008</u>
Residential	46.9094%	45.5893%	44.0853%	45.5595%
Commercial	100%	100%	99.7312%	100%
Agricultural	100%	100%	100%	100%
Industrial	100%	100%	100%	100%

The January 1, 2009 property tax valuation serves as the basis for calculating property taxes for 2011. Since 1978, residential, commercial and agricultural classifications have been subject to the assessment limitation order, or roll back, that limits annual growth in property taxes 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, 2010

	Disbursements	Program Receipts		
		Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 632,578	\$ -	\$ 12,514	\$ -
Public works	392,934	-	376,562	-
Culture and recreation	358,976	114,749	10	-
Community and economic development	67,948	-	-	-
General government	372,293	79,213	-	-
Debt service	1,595,321	-	-	-
Capital projects	1,085,228	-	-	18,218
Total governmental activities	<u>4,505,278</u>	<u>193,962</u>	<u>389,086</u>	<u>18,218</u>
Business type activities:				
Storm water	62,196	35,517	-	-
Water	496,753	470,581	-	-
Sewer	525,910	698,659	-	-
Solid waste	371,214	277,314	-	-
Total business type activities	<u>1,456,073</u>	<u>1,482,071</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 5,961,351</u>	<u>\$ 1,676,033</u>	<u>\$ 389,086</u>	<u>\$ 18,218</u>
General Receipts and Transfers:				
Property and other city tax levied for:				
General purposes				
Debt service				
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
\$ (620,064)	\$ -	\$ (620,064)
(16,372)	-	(16,372)
(244,217)	-	(244,217)
(67,948)	-	(67,948)
(293,080)	-	(293,080)
(1,595,321)	-	(1,595,321)
(1,067,010)	-	(1,067,010)
<u>(3,904,012)</u>	<u>-</u>	<u>(3,904,012)</u>
-	(26,679)	(26,679)
-	(26,172)	(26,172)
-	172,749	172,749
-	(93,900)	(93,900)
<u>-</u>	<u>25,998</u>	<u>25,998</u>
<u>(3,904,012)</u>	<u>25,998</u>	<u>(3,878,014)</u>
1,109,691	-	1,109,691
67,993	-	67,993
759,472	-	759,472
533,571	-	533,571
53,716	-	53,716
10,144	-	10,144
37,127	25,430	62,557
3,970,000	-	3,970,000
94,451	114,029	208,480
344,828	(344,828)	-
<u>6,980,993</u>	<u>(205,369)</u>	<u>6,775,624</u>

(continued)

CITY OF MOUNT VERNON

Statement of Activities and Net Assets - Cash Basis

As of and for the year ended June 30, 2010

	<u>Program Receipts</u>		
	<u>Charges for</u>	<u>Operating</u>	<u>Capital</u>
<u>Disbursements</u>	<u>Services</u>	<u>Grants,</u>	<u>Grants,</u>
		<u>Contributions</u>	<u>Contributions</u>
		<u>and Restricted</u>	<u>and Restricted</u>
		<u>Interest</u>	<u>Interest</u>
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			
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
3,076,981	(179,371)	2,897,610
<u>3,315,363</u>	<u>776,763</u>	<u>4,092,126</u>
<u>\$ 6,392,344</u>	<u>\$ 597,392</u>	<u>\$ 6,989,736</u>

\$ 481,570	\$ -	\$ 481,570
347,114	-	347,114
-	195,065	195,065
77,535	-	77,535
4,869,866	-	4,869,866
<u>616,259</u>	<u>402,327</u>	<u>1,018,586</u>
<u>\$ 6,392,344</u>	<u>\$ 597,392</u>	<u>\$ 6,989,736</u>

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

CITY OF MOUNT VERNON

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

As of and for the year ended June 30, 2010

	Special Revenue			
	General	Road Use Tax	Urban Renewal Tax Increment	Local Option Sales Tax
Receipts:				
Property tax	\$ 737,412	\$ -	\$ -	\$ -
Tax increment financing	-	-	742,339	-
Other city tax	75,929	-	-	533,571
Licenses and permits	58,929	-	-	-
Use of money and property	31,002	-	5,253	5,253
Intergovernmental	17,619	368,692	-	-
Charges for service	119,055	-	-	-
Miscellaneous	49,117	11,269	-	-
Total receipts	<u>1,089,063</u>	<u>379,961</u>	<u>747,592</u>	<u>538,824</u>
Disbursements:				
Operating:				
Public safety	632,578	-	-	-
Public works	-	392,934	-	-
Culture and recreation	320,168	-	-	38,808
Community and economic development	67,948	-	-	-
General government	267,585	-	-	-
Debt service	-	-	-	-
Capital projects	-	-	-	-
Total disbursements	<u>1,288,279</u>	<u>392,934</u>	<u>-</u>	<u>38,808</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(199,216)</u>	<u>(12,973)</u>	<u>747,592</u>	<u>500,016</u>
Other financing sources (uses):				
Bond proceeds	-	-	-	-
Operating transfers in	265,778	-	-	-
Operating transfers out	-	-	(568,562)	-
Total other financing sources (uses)	<u>265,778</u>	<u>-</u>	<u>(568,562)</u>	<u>-</u>

<u>Capital Projects</u>				
<u>Debt Service</u>	<u>2006/2009 Water Improvement</u>	<u>2009 Sanitary Sewer</u>	<u>Nonmajor</u>	<u>Total</u>
\$ 67,993	\$ -	\$ -	\$ 350,067	\$ 1,155,472
17,132	-	-	-	759,471
332	-	-	-	609,832
-	-	-	-	58,929
6,113	5,253	-	4,539	57,413
-	-	-	18,218	404,529
-	-	-	-	119,055
-	12,067	28,156	2,121	102,730
<u>91,570</u>	<u>17,320</u>	<u>28,156</u>	<u>374,945</u>	<u>3,267,431</u>
-	-	-	-	632,578
-	-	-	-	392,934
-	-	-	-	358,976
-	-	-	-	67,948
-	-	-	104,708	372,293
1,595,321	-	-	-	1,595,321
-	287,339	206,107	591,782	1,085,228
<u>1,595,321</u>	<u>287,339</u>	<u>206,107</u>	<u>696,490</u>	<u>4,505,278</u>
<u>(1,503,751)</u>	<u>(270,019)</u>	<u>(177,951)</u>	<u>(321,545)</u>	<u>(1,237,847)</u>
398,000	1,040,900	2,431,100	100,000	3,970,000
872,913	-	-	-	1,138,691
-	-	-	(225,301)	(793,863)
<u>1,270,913</u>	<u>1,040,900</u>	<u>2,431,100</u>	<u>(125,301)</u>	<u>4,314,828</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, 2010

	Special Revenue			
General	Road Use Tax	Urban Renewal Tax Increment	Local Option Sales Tax	
Net change in cash balances	66,562	(12,973)	179,030	500,016
Cash balances, beginning of year	462,124	104,458	168,084	1,603,912
Cash balances, end of year	\$ 528,686	\$ 91,485	\$ 347,114	\$ 2,103,928
 Cash Basis Fund Balances				
Unreserved:				
General fund	\$ 528,686	\$ -	\$ -	\$ -
Special revenue funds	-	91,485	347,114	2,103,928
Debt service	-	-	-	-
Capital projects fund	-	-	-	-
Permanent fund	-	-	-	-
Total cash basis fund balance	\$ 528,686	\$ 91,485	\$ 347,114	\$ 2,103,928

<u>Capital Projects</u>				
<u>Debt Service</u>	<u>2006/2009 Water Improvement</u>	<u>2009 Sanitary Sewer</u>	<u>Nonmajor</u>	<u>Total</u>
(232,838)	770,881	2,253,149	(446,846)	3,076,981
<u>3,859</u>	<u>62,649</u>	<u>(320,741)</u>	<u>1,231,018</u>	<u>3,315,363</u>
<u>\$ (228,979)</u>	<u>\$ 833,530</u>	<u>\$ 1,932,408</u>	<u>\$ 784,172</u>	<u>\$ 6,392,344</u>
\$ -	\$ -	\$ -	\$ -	\$ 528,686
-	-	-	30,533	2,573,060
(228,979)	-	-	-	(228,979)
-	833,530	1,932,408	676,104	3,442,042
<u>-</u>	<u>-</u>	<u>-</u>	<u>77,535</u>	<u>77,535</u>
<u>\$ (228,979)</u>	<u>\$ 833,530</u>	<u>\$ 1,932,408</u>	<u>\$ 784,172</u>	<u>\$ 6,392,344</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, 2010

	Enterprise				Total
	Water	Sewer	Solid Waste	Nonmajor Storm Water	
Operating receipts:					
Use of money and property	\$ 12,686	\$ 5,253	\$ 6,683	\$ 808	\$ 25,430
Charges for service	470,581	698,659	277,314	35,517	1,482,071
Miscellaneous	14,906	1,872	90,888	6,363	114,029
Total operating receipts	498,173	705,784	374,885	42,688	1,621,530
Operating disbursements:					
Business type activities	496,753	525,910	371,214	62,196	1,456,073
Excess (deficiency) of receipts over (under) disbursements	1,420	179,874	3,671	(19,508)	165,457
Other financing uses:					
Operating transfers out	(60,184)	(284,644)	-	-	(344,828)
Net change in cash balances	(58,764)	(104,770)	3,671	(19,508)	(179,371)
Cash balances, beginning of year	42,990	453,869	186,321	93,583	776,763
Cash balances, end of year	\$ (15,774)	\$ 349,099	\$ 189,992	\$ 74,075	\$ 597,392
Cash Basis Fund Balances:					
Reserved for maintenance and improvements	\$ 125,000	\$ 70,065	\$ -	\$ -	\$ 195,065
Unreserved	(140,774)	279,034	189,992	74,075	402,327
Total cash basis fund balances	\$ (15,774)	\$ 349,099	\$ 189,992	\$ 74,075	\$ 597,392

CITY OF MOUNT VERNON

Notes to Financial Statements

June 30, 2010

(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.

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.

CITY OF MOUNT VERNON

Notes to Financial Statements

June 30, 2010

(1) Summary of Significant Accounting Policies (continued)

B. Basis of Presentation (continued)

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 tax increment financing collections, the repayment of tax increment financing indebtedness and for urban renewal projects financed by tax increment financing.

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

Capital Projects:

The 2009 Sanitary Sewer Fund is used to account for sewer improvement projects.

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

CITY OF MOUNT VERNON

Notes to Financial Statements

June 30, 2010

(1) Summary of Significant Accounting Policies (continued)

B. Basis of Presentation (continued)

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

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

The Enterprise, 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 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.

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.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2010, disbursements exceeded the amount budgeted in the public works, general government, debt service and culture and recreation functions.

E. Property Tax Calendar

The City's property tax rates were extended against the assessed valuation of the City as of January 1, 2008 to compute the amounts which became liens on property on July 1, 2009. These taxes were due and payable in two installments on September 30, 2009 and March 31, 2010, at the Linn County Treasurer's Office. These taxes are recognized as income to the City when they are received from the county.

CITY OF MOUNT VERNON

Notes to Financial Statements

June 30, 2010

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2010, 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.

At June 30, 2010, the City's deposits consisted of cash, cash equivalents and bank certificates of deposit.

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. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

(3) Bonds and Notes Payable

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. 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 after payment of issuance costs and underwriter's premium of \$28,000 was \$3,472,000. 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 2029.

On September 22, 2009, the City issued \$100,000 in a General Obligation Capital Loan Note with an interest rate of .90 percent to purchase property. Interest and principal is due on June 1, 2011.

CITY OF MOUNT VERNON
Notes to Financial Statements

June 30, 2010

(3) Bonds and Notes Payable (continued)

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

<u>Year Ending June 30,</u>	<u>General Obligation Bonds & Notes</u>	
	<u>Principal</u>	<u>Interest</u>
2011	\$ 785,000	\$ 352,470
2012	705,000	328,743
2013	645,000	304,378
2014	660,000	281,665
2015	695,000	256,885
2016	730,000	230,358
2017	600,000	201,678
2018	400,000	177,415
2019	370,000	160,740
2020	385,000	144,665
2021	395,000	127,515
2022	415,000	109,915
2023	195,000	91,225
2024	210,000	80,988
2025	215,000	69,753
2026	230,000	57,928
2027	245,000	44,933
2028	260,000	30,845
2029	<u>265,000</u>	<u>15,635</u>
Total	<u>\$8,405,000</u>	<u>\$3,067,730</u>

(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 4.50% of their annual covered salary and the City is required to contribute 6.95% 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, 2010, 2009 and 2008 were \$78,643, \$68,561 and \$63,742, respectively, equal to the required contributions for each year.

CITY OF MOUNT VERNON
Notes to Financial Statements

June 30, 2010

(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, 2010, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 70,412
Sick leave	<u>103,666</u>
Total	<u>\$ 174,078</u>

This liability has been computed based on rates of pay in effect at June 30, 2010.

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 \$51,800 at June 30, 2010. Effective July 1, 2010, the City has reduced the maximum number of vacation and sick leave hours certain employees can accrue.

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, 2010, this amount approximates \$54,760. The contract effective July 1, 2010 reduces this period from eight to six months.

(6) Meter Deposits

At June 30, 2010, the City was holding meter deposits from individuals in the amount of \$7,802.

CITY OF MOUNT VERNON

Notes to Financial Statements

June 30, 2010

(7) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2010 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Special Revenue:	
	Urban Renewal Tax Increment	\$ 568,562
	Enterprise:	
	Water	38,728
	Sewer	<u>265,623</u>
		<u>872,913</u>
General Fund	Enterprise:	
	Water	21,456
	Sewer	19,021
	Special Revenue:	
	Employee Benefits	179,891
	Emergency Levy	<u>45,410</u>
		<u>265,778</u>
Total		<u>\$ 1,138,691</u>

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

(8) 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.

(9) Deficit Balances

The Capital Projects Fund, the Water Fund and the Debt Service Fund had deficit balances of \$24,049 and \$15,774 and \$228,979, respectively, at June 30, 2010. The Capital 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. The Debt Service Fund deficit balance was a result of unbudgeted debt service payments. This deficit will be eliminated through transfers from the enterprise funds.

CITY OF MOUNT VERNON
Notes to Financial Statements

June 30, 2010

(10) Commitments

The City has entered into various contracts, most of which are for capital projects, totaling \$699,324. Through June 30, 2010, \$329,531 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.

(11) Subsequent Events

Management evaluated subsequent events through January 19, 2011, the date the financial statements were available to be issued. Events or transactions occurring after June 30, 2010, but prior to January 19, 2011, that provided additional evidence about conditions that existed at June 30, 2010, have been recognized in the financial statements for the year ended June 30, 2010. Events or transactions that provided evidence about conditions that did not exist at June 30, 2010, but arose before the financial statements were available to be issued have not been recognized in the financial statements for the year ended June 30, 2010.

Debt issuance. On October 19, 2010, the City issued \$400,000 in General Obligation Taxable Bonds with an average interest rate of 2.28 percent to finance the costs of building, equipping and furnishing a new fire station. Net proceeds of \$388,871 (after payment of issuance costs and underwriter's premium of \$11,129) were deposited into the Local Option Sales Tax Fund.

On December 1, 2010, the City issued \$160,000 in General Obligation Taxable Bonds with an average interest rate 1.31 percent to finance the purchase of land for a new fire station and for urban renewal projects. Net proceeds of \$151,129 (after payment of issuance costs of \$8,871) were deposited into the Capital Improvement Fund and the Local Option Sales Tax Fund.

(12) New Accounting Standard

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, issued March 2009, will be effective for the City beginning with its year ending June 30, 2011. This Statement is intended to improve the usefulness of information provided to financial report users about fund balances by providing clearer, more structured fund balance classifications, and by clarifying the definitions of existing governmental fund types. Fund balance information is among the most widely and frequently used information in state and local government financial reports. GASB developed this standard to address the diversity of practice and the resulting lack of consistency that had evolved in fund balance reporting. To reduce confusion, the new standard establishes a hierarchy of fund balance classification based primarily on the extent to which a government is bound to observe spending constraints.

It is not anticipated that the implementation of the new standard will have a significant effect on the City's financial statements.

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, 2010

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 1,155,472	\$ -	\$ -
Tax increment financing	759,471	-	-
Other city tax	609,832	-	-
Licenses and permits	58,929	-	-
Use of money and property	57,413	25,430	-
Intergovernmental	404,529	-	-
Charges for service	119,055	1,482,071	-
Miscellaneous	102,730	114,029	-
	<u>3,267,431</u>	<u>1,621,530</u>	<u>-</u>
Total receipts			
Disbursements:			
Public safety	632,578	-	-
Public works	392,934	-	-
Culture and recreation	358,976	-	-
Community and economic development	67,948	-	-
General government	372,293	-	-
Debt service	1,595,321	-	-
Capital projects	1,085,228	-	-
Business type activities	-	1,456,073	-
	<u>4,505,278</u>	<u>1,456,073</u>	<u>-</u>
Total disbursements			
Excess (deficiency) of receipts over (under) disbursements	(1,237,847)	165,457	-
Other financing sources, net	<u>4,314,828</u>	<u>(344,828)</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	3,076,981	(179,371)	-
Balances beginning of year	<u>3,315,363</u>	<u>776,763</u>	<u>-</u>
Balances end of year	<u>\$ 6,392,344</u>	<u>\$ 597,392</u>	<u>\$ -</u>

Net	Budgeted Amounts		Final to Net Variance
	Original	Final	
\$ 1,155,472	\$ 1,153,147	\$ 1,195,692	\$ (40,220)
759,471	740,000	740,000	19,471
609,832	2,091,189	2,641,189	(2,031,357)
58,929	70,000	70,000	(11,071)
82,843	174,500	174,500	(91,657)
404,529	374,500	374,500	30,029
1,601,126	1,363,000	1,363,000	238,126
216,759	48,000	56,225	160,534
<u>4,888,961</u>	<u>6,014,336</u>	<u>6,615,106</u>	<u>(1,726,145)</u>
632,578	654,522	670,522	37,944
392,934	357,687	357,687	(35,247)
358,976	334,987	390,867	31,891
67,948	68,566	68,566	618
372,293	354,289	354,289	(18,004)
1,595,321	825,693	1,138,116	(457,205)
1,085,228	2,630,000	2,630,000	1,544,772
1,456,073	5,082,176	5,082,176	3,626,103
<u>5,961,351</u>	<u>10,307,920</u>	<u>10,692,223</u>	<u>4,730,872</u>
(1,072,390)	(4,293,584)	(4,077,117)	3,004,727
<u>3,970,000</u>	<u>7,932,416</u>	<u>7,932,416</u>	<u>(3,962,416)</u>
2,897,610	3,638,832	3,855,299	(957,689)
<u>4,092,126</u>	<u>6,315,873</u>	<u>6,315,873</u>	<u>(2,223,747)</u>
<u>\$ 6,989,736</u>	<u>\$ 9,954,705</u>	<u>\$ 10,171,172</u>	<u>\$ (3,181,436)</u>

CITY OF MOUNT VERNON

Notes to Required Supplementary Information - Budgetary Reporting

June 30, 2010

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. 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, the Permanent Fund and the Enterprise 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 \$600,770 and disbursements by \$384,303. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2010, disbursements exceeded the amounts budgeted in the public works, general government, culture and recreation and debt service 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, 2010

	Special Revenue			
	Insurance Levy	Employee Benefits	Emergency Levy	Low- Moderate Income
Receipts:				
Property tax	\$ 85,851	\$ 178,837	\$ 24,394	\$ -
Use of money and property	-	-	-	-
Intergovernmental	-	-	-	-
Miscellaneous	-	-	-	-
Total receipts	<u>85,851</u>	<u>178,837</u>	<u>24,394</u>	<u>-</u>
Disbursements:				
Operating:				
General government	104,708	-	-	-
Capital projects	-	-	-	-
Total disbursements	<u>104,708</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(18,857)</u>	<u>178,837</u>	<u>24,394</u>	<u>-</u>
Other financing sources (uses):				
Bond proceeds	-	-	-	-
Operating transfers out	-	(179,891)	(45,410)	-
Total other financing sources (uses)	<u>-</u>	<u>(179,891)</u>	<u>(45,410)</u>	<u>-</u>
Net change in cash balances	<u>(18,857)</u>	<u>(1,054)</u>	<u>(21,016)</u>	<u>-</u>
Cash balances, beginning of year	<u>36,713</u>	<u>2,936</u>	<u>21,274</u>	<u>10,537</u>
Cash balances, end of year	<u>\$ 17,856</u>	<u>\$ 1,882</u>	<u>\$ 258</u>	<u>\$ 10,537</u>
Cash Basis Fund Balances				
Unreserved:				
Special revenue funds	\$ 17,856	\$ 1,882	\$ 258	\$ 10,537
Capital project funds	-	-	-	-
Permanent fund	-	-	-	-
Total cash basis fund balances	<u>\$ 17,856</u>	<u>\$ 1,882</u>	<u>\$ 258</u>	<u>\$ 10,537</u>

Schedule 1

Capital Projects			Permanent	
2007 Street Improvement	Fire Department	Capital Projects	Cemetery Perpetual Care	Total
\$ -	\$ 60,985	\$ -	\$ -	\$ 350,067
4,516	-	23	-	4,539
-	-	18,218	-	18,218
-	-	181	1,940	2,121
<u>4,516</u>	<u>60,985</u>	<u>18,422</u>	<u>1,940</u>	<u>374,945</u>
-	-	-	-	104,708
<u>260,835</u>	<u>12,819</u>	<u>318,128</u>	<u>-</u>	<u>591,782</u>
<u>260,835</u>	<u>12,819</u>	<u>318,128</u>	<u>-</u>	<u>696,490</u>
<u>(256,319)</u>	<u>48,166</u>	<u>(299,706)</u>	<u>1,940</u>	<u>(321,545)</u>
-	-	100,000	-	100,000
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(225,301)</u>
<u>-</u>	<u>-</u>	<u>100,000</u>	<u>-</u>	<u>(125,301)</u>
<u>(256,319)</u>	<u>48,166</u>	<u>(199,706)</u>	<u>1,940</u>	<u>(446,846)</u>
<u>646,404</u>	<u>261,902</u>	<u>175,657</u>	<u>75,595</u>	<u>1,231,018</u>
<u>\$ 390,085</u>	<u>\$ 310,068</u>	<u>\$ (24,049)</u>	<u>\$ 77,535</u>	<u>\$ 784,172</u>
\$ -	\$ -	\$ -	\$ -	\$ 30,533
390,085	310,068	(24,049)	-	676,104
<u>-</u>	<u>-</u>	<u>-</u>	<u>77,535</u>	<u>77,535</u>
<u>\$ 390,085</u>	<u>\$ 310,068</u>	<u>\$ (24,049)</u>	<u>\$ 77,535</u>	<u>\$ 784,172</u>

CITY OF MOUNT VERNON

Schedule of Indebtedness

Year ended June 30, 2010

<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 Capital improvements	May 1, 2007	4%	4,410,000
2008 Capital improvements	Nov. 17, 2008	2.95-3.30%	385,000
2009A Sewer improvements	July 1, 2009	2.0-3.75%	400,000
2009B Sewer/water improvements	Sept. 22, 2009	1.5-5.9%	3,500,000
2009C Land purchase	Oct. 1, 2009	.9%	100,000
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>
\$ 910,000	\$ -	\$ 120,000	\$ 790,000	\$ 34,490	\$ -
3,795,000	-	300,000	3,495,000	151,800	-
385,000	-	225,000	160,000	17,146	-
-	400,000	40,000	360,000	10,874	-
-	3,500,000	-	3,500,000	114,066	-
-	100,000	-	100,000	-	-
<u>\$5,090,000</u>	<u>\$4,000,000</u>	<u>\$ 685,000</u>	<u>\$8,405,000</u>	<u>\$ 328,376</u>	<u>\$ -</u>
<u>\$ 565,000</u>	<u>\$ -</u>	<u>\$ 565,000</u>	<u>\$ -</u>	<u>\$ 4,740</u>	<u>\$ -</u>

CITY OF MOUNT VERNON

Bond and Note Maturities

June 30, 2010

General Obligation Bonds and Capital Loan Notes						
Year Ending June 30	2007 Capital Improvements Issued May 1, 2007		2006 Water Improvements Issued April 1, 2006		2008 Capital Improvements Issued November 17, 2008	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
	2011	4.00%	\$ 310,000	3.750%	\$ 120,000	2.95%
2012	4.00	325,000	3.750	125,000	3.30	80,000
2013	4.00	335,000	3.750	125,000	-	-
2014	4.00	345,000	3.800	135,000	-	-
2015	4.00	365,000	3.850	140,000	-	-
2016	4.00	380,000	3.900	145,000	-	-
2017	4.00	395,000	-	-	-	-
2018	4.00	190,000	-	-	-	-
2019	4.00	200,000	-	-	-	-
2020	4.00	210,000	-	-	-	-
2021	4.00	215,000	-	-	-	-
2022	4.00	<u>225,000</u>	-	-	-	-
Total		\$ 3,495,000		\$ 790,000		\$ 160,000

General Obligation Bonds and Capital Loan Notes (continued)							
Year Ending June 30	2009A Sewer Improvements Issued July 1, 2009		2009B Sewer/water Improvements Issued September 22, 2009		2009C Land Purchase Issued October 1, 2009		Total
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
	2011	2.00%	\$ 40,000	1.50%	\$ 135,000	.90%	
2012	2.50	40,000	2.25	135,000	-	-	705,000
2013	2.50	45,000	2.50	140,000	-	-	645,000
2014	3.25	40,000	3.25	140,000	-	-	660,000
2015	3.25	45,000	3.50	145,000	-	-	695,000
2016	3.25	50,000	4.00	155,000	-	-	730,000
2017	3.75	50,000	4.25	155,000	-	-	600,000
2018	3.75	50,000	4.50	160,000	-	-	400,000
2019	-	-	4.75	170,000	-	-	370,000
2020	-	-	5.00	175,000	-	-	385,000
2021	-	-	5.00	180,000	-	-	395,000
2022	-	-	5.10	190,000	-	-	415,000
2023	-	-	5.25	195,000	-	-	195,000
2024	-	-	5.35	210,000	-	-	210,000
2025	-	-	5.50	215,000	-	-	215,000
2026	-	-	5.65	230,000	-	-	230,000
2027	-	-	5.75	245,000	-	-	245,000
2028	-	-	5.85	260,000	-	-	260,000
2029	-	-	5.90	<u>265,000</u>	-	-	<u>265,000</u>
Total		\$ 360,000		\$ 3,500,000		\$ 100,000	\$ 8,405,000

CITY OF MOUNT VERNON

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

For the Last Seven Years

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Receipts:							
Property tax	\$ 1,155,472	\$ 1,025,006	\$ 1,142,527	\$ 991,801	\$ 854,772	\$ 876,918	\$ 816,454
Tax increment financing collections	759,471	899,722	333,708	595,021	739,361	613,934	733,812
Other city tax	609,832	126,127	74,599	103,758	560,300	518,229	138,678
Licenses and permits	58,929	84,542	69,276	57,439	90,086	72,072	44,181
Use of money and property	57,413	54,388	89,050	102,637	43,350	29,333	24,856
Intergovernmental	404,529	369,307	367,161	355,094	342,940	333,602	346,631
Charges for service	119,055	95,746	120,979	107,965	113,589	93,816	103,887
Miscellaneous	<u>102,730</u>	<u>81,604</u>	<u>108,347</u>	<u>71,189</u>	<u>84,446</u>	<u>117,918</u>	<u>132,311</u>
Total	<u>\$ 3,267,430</u>	<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:							
Public safety	\$ 632,578	\$ 647,294	\$ 576,270	\$ 548,890	\$ 528,275	\$ 518,300	\$ 477,261
Public works	392,934	379,826	330,170	264,064	380,354	363,862	297,355
Culture and recreation	358,976	325,455	294,977	284,887	269,225	310,357	265,166
Community and economic development	67,948	69,516	77,194	54,270	38,541	21,715	7,240
General government	372,293	363,621	288,571	270,390	265,636	265,671	203,634
Debt service	1,595,321	602,659	728,040	2,366,083	511,753	518,900	511,520
Capital projects	<u>1,085,228</u>	<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>\$ 4,505,278</u>	<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, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents, and have issued our report thereon dated January 19, 2011. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Mount Vernon, Iowa's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City'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 deficiencies, significant deficiencies or material weaknesses. However, as discussed in the accompanying Schedule of Findings and Responses, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness and another deficiency that we consider to be a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in Part II of the accompanying Schedule of Findings and Responses as item II-B-10 to be a material weakness in internal control over financial reporting.

A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part II of the accompanying Schedule of Findings and Responses as Items II-A-10 to be a significant deficiency.

Compliance and Other Matters

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

We noted certain matters that we reported to management of the City in a separate letter dated January 19, 2011.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2010 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, Iowa's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit the City of Mount Vernon, Iowa'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 Mayor, City Council and management of the City of Mount Vernon, Iowa and other parties to whom the City of Mount Vernon, Iowa may report and is not intended to be and should not be used by anyone other than these specified parties.

Clifton Henderson LLP

Cedar Rapids, Iowa
January 19, 2011

CITY OF MOUNT VERNON

Schedule of Findings and Responses

Year ended June 30, 2010

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) A significant deficiency and material weakness in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

PART II: FINDINGS RELATED TO THE FINANCIAL STATEMENTS:

INTERNAL CONTROL DEFICIENCIES:

II-A-10: 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 and Responses

Year ended June 30, 2010

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

INTERNAL CONTROL DEFICIENCIES: (CONTINUED)

II-A-10: 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-10: 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 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 and Responses
Year ended June 30, 2010

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

INTERNAL CONTROL DEFICIENCIES: (CONTINUED)

II-B-10: 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 and Responses
Year ended June 30, 2010

PART III: OTHER FINDINGS RELATED TO REQUIRED STATUTORY REPORTING:

III-A-10 Certified Budget - Disbursements during the year ended June 30, 2010 exceeded the amounts budgeted in the public works, general government and debt service functions. Also, prior to amending the budget, disbursements exceeded the amounts budgeted in the culture and recreation function. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

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

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

Conclusion - Response accepted.

III-B-10 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-10 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

III-D-10 Business Transactions - No business transactions between the City and City officials or employees were noted.

III-E-10 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-10 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

III-G-10 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.

CITY OF MOUNT VERNON

Schedule of Findings and Responses

Year ended June 30, 2010

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

III-H-10 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 Group 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.

III-I-10 Financial Condition - The Capital Projects Fund, the Water Fund and the Debt Service Fund had deficit balances at June 30, 2010 of \$24,049, \$15,774 and \$228,979, respectively.

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

Response - The Capital Projects 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 an increase in water and sewer rates as well as a flat rate sewer fee. The Debt Service Fund deficit was due to unbudgeted debt service payments. This deficit will be eliminated next year.

Conclusion - Response accepted.



January 19, 2011

Mr. Mike Beimer, City Administrator
City of Mount Vernon, Iowa

We have completed our audit of the financial statements of the City of Mount Vernon, Iowa for the year ended June 30, 2010, and have issued our report thereon dated January 19, 2011. In connection with our audit engagement, we noted the following matters which we would like to bring to your attention.

We reviewed a sample of credit card invoices and noted the attached receipts did not contain sufficient detail to determine what had been purchased. We recommend that all receipts contain sufficient detail to ensure that all expenses charged to City credit cards are appropriate.

There currently is not a review process relating to adjustments made to utility account balances. We recommend that when adjustments are made, that the City Administrator review the adjustments and initial to document the review process.

This letter is intended solely for the information and use of City management, and is not intended to be and should not be used by anyone other than this specified party.

Clifton Gunderson LLP