



**CITY OF MOUNT VERNON, IOWA**  
**INDEPENDENT AUDITOR'S REPORTS**  
**BASIC FINANCIAL STATEMENTS**  
**AND SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
June 30, 2011

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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, 2011, 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 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, 2011, 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 December 2, 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.

Management's Discussion and Analysis and budgetary comparison information on pages 6 through 16 and 37 through 39 are not a required part 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, 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, 2010 (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. Other 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  
December 2, 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, 2011. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### **2011 FINANCIAL HIGHLIGHTS**

- Revenues of the City's governmental activities increased 8%, from \$3,267,431 to \$3,530,385, from fiscal year 2010 to fiscal year 2011. 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, 2011, amounts to \$2,794,119. 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 completed in the fall of 2011). 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 \$1,821,871 as of June 30, 2011, and the LOST-2 fund standing at \$972,248, for a cumulative total of \$2,794,119 as of June 30, 2011. Total revenues in fiscal year 2011 include \$558,600 of bond proceeds compared to \$3,970,000 received in fiscal year 2010.
- Disbursements for governmental activities decreased 2.9%, from \$4,505,278 to \$4,372,514, from fiscal year 2010 to fiscal year 2011. Public safety, culture and recreation, general government and capital projects disbursements increased approximately \$94,929, \$59,691, \$42,587 and, \$191,690, respectively. Public works, community and economic development and debt service disbursements decreased \$56,662, \$15,119 and \$449,880, respectively.
- The City's total cash basis net assets decreased from \$6,989,736 to \$6,974,211, from June 30, 2010 to June 30, 2011. Of this amount, the assets of the governmental activities increased by \$130,102 and the assets of the business type activities decreased by \$145,627.

- 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. Starting in FY13, the third 10% increase in water rates will kick in; however, at this juncture, it is anticipated that these 3 consecutive rate increases will not be sufficient to eliminate the deficit between revenues and expenditures in the water utility, which will necessitate an increase in water rates beyond the 3% yearly increase contained in the City ordinance regarding water rates. The sewer utility is barely holding its own on revenues versus expenditures and this utility will be monitored regarding any rate increases in that utility. The storm water utility may also need to be adjusted in FY13 as there is a need to modify certain aspects of the existing ordinance on impermeable surface area runoff to be fair; also, the rates will possibly need to be increased overall as they have not increased since the inception of the ordinance approximately 10 years ago and, increasingly, there are storm water projects that need to be funded.

## **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 and City's indebtedness.

## **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, readers 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 \$6,392,344 to \$6,522,446. Bond proceeds of \$558,600 contributed to this increase. 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>2011</u>	<u>2010</u>
Receipts:		
Program receipts:		
Charges for service	\$ 238	\$ 194
Operating grants, contributions and restricted interest	400	389
Capital grants, contributions and restricted interest	22	18
General receipts:		
Property tax	2,068	1,937
Local option sales tax	545	534
Hotel/motel taxes	50	54
Grants and contributions not restricted to specific purposes	6	10
Unrestricted interest on investments	32	37
Other general receipts	169	94
Bond proceeds	<u>559</u>	<u>3,970</u>
Total receipts	<u>4,089</u>	<u>7,237</u>
Disbursements:		
Public safety	728	633
Public works	336	393
Culture and recreation	419	359
Community and economic development	53	68
General government	415	372
Debt service	1,145	1,595
Capital projects	<u>1,277</u>	<u>1,085</u>
Total disbursements	<u>4,373</u>	<u>4,505</u>
Change in cash basis net assets before transfers	(284)	2,732
Transfers, net	<u>414</u>	<u>345</u>
Change in cash basis net assets	130	3,077
Cash basis net assets, beginning of year	<u>6,392</u>	<u>3,315</u>
Cash basis net assets, end of year	<u>\$ 6,522</u>	<u>\$ 6,392</u>

The City's total receipts for governmental activities increased by 8%, or \$262,954. The total cost of all programs and services increased by \$132,764, or 2.9%, with no new programs added this year.

The City property tax rate for 2011 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 18 years. The property tax levy rate for fiscal year 2011 remained at the same rate of 12.99%; the same rate will be applied for FY12. 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 \$4,372,514, compared to \$4,505,278 last year. However, as shown in the Statement of Activities and Net Assets on pages 18-21, the amount taxpayers ultimately financed for these activities was only \$3,711,884 because some of the cost was paid by those who directly benefited from the programs (charges for service \$238,088) or by other governments and organizations that subsidized certain programs with grants and contributions of \$422,542. Overall, the City's governmental activities program receipts, including intergovernmental aid and fees for service, increased in fiscal year 2011 from \$601,266 to \$660,630. The City paid for the remaining "public benefit" portion of governmental activities (\$3,711,884) 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>2011</u>	<u>2010</u>
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 502	\$ 471
Sewer	734	699
Solid waste	278	277
Storm water	37	35
General receipts:		
Unrestricted interest on investments	17	25
Other general receipts	<u>114</u>	<u>114</u>
Total receipts	<u>1,682</u>	<u>1,621</u>
Disbursements:		
Water	440	497
Sewer	559	526
Solid waste	405	371
Storm water	<u>9</u>	<u>62</u>
Total disbursements	<u>1,413</u>	<u>1,456</u>

	<u>Year Ended June 30,</u>	
	<u>2011</u>	<u>2010</u>
Change in cash basis net assets before transfers	269	165
Transfers, net	<u>(414)</u>	<u>(345)</u>
Change in cash basis net assets	(145)	(180)
Cash basis net assets, beginning of year	<u>597</u>	<u>777</u>
Cash basis net assets, end of year	<u>\$ 452</u>	<u>\$ 597</u>

Total business type activities receipts for the fiscal year were \$1,664,525 compared to \$1,621,530 last year. The cash balance decreased \$145,627 from the prior year. Total disbursements for the fiscal year decreased by 2.96% to a total of \$1,413,015.

### INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As Mount Vernon completed the year, its governmental funds reported a combined fund balance of \$6,522,446, an increase of \$130,102 from last year's total of \$6,392,344. 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 \$79,336 from the prior year to \$449,350.
- 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 \$394,477, an increase of \$47,363 from the previous year. The idea 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 \$690,191 during the fiscal year. The City intends to use these receipts in the future for infrastructure-related projects.
- The Debt Service Fund cash balance of \$52,984 increased \$281,963 from (\$228,979) during the fiscal year.
- The Capital Projects, 2006/2009 Water Improvement and 2009 Sanitary Sewer Funds cash balances decreased \$51,151 and \$542,561, respectively, during the fiscal year. These decreases were the result of capital expenditures.

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

- The Enterprise, Water Fund cash balance decreased by \$63,725 to \$(79,449), due primarily to an increase in program expenditures.
- The Enterprise, Sewer Fund cash balance decreased by \$88,427 to \$260,672, due primarily to increases in sewer operational expenses and equipment maintenance and repairs over the prior year.
- The Enterprise, Solid Waste Fund cash balance decreased \$20,971 to \$169,021 due primarily to a slight adjustment in accounting for certain costs attributable to this utility, mostly an adjustment in fuel cost per contract, having previously entered into a 7-year contract with a new waste hauler. The present contract expires with the hauler on June 30, 2012. The City will seek competitive bids for a long-term contract, the time of the contract to be determined by council.

## **BUDGETARY HIGHLIGHTS**

Over the course of the year, the City amended its budget once, in May 2011. The amendment was approved on May 23, 2011, and resulted in an increase in operating disbursements related to cost overruns of approximately \$43,500 for public safety and \$118,350 for culture and recreation, and \$38,500 for general government. An additional \$123,000 of expenditures were added to the budget for debt service and \$104,500 added for business type activities.

The City's revenue budget was amended to reduce \$77,981 of property tax receipts. The budget was also amended to add an additional \$6,200 of licenses and permits receipts, and \$37,425 to use of money and property receipts, and \$55,720 of additional miscellaneous receipts.

## **DEBT ADMINISTRATION**

At June 30, 2011, the City had \$8,180,000 in bonds and other long-term debt, compared to \$8,405,000 last year.

Debt decreased as a result of payments made exceeding new debt issued.

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 \$8,180,000 is below its constitutional debt limit of \$10,563,393 as of June 30, 2011.

## **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 2011 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 2010-2011, and it is highly likely that external expenses of which the City has little control over will continue upwards.

It is anticipated that all energy costs will continue to rise in 2011-2012, 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 2011-2012. 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 be completed by the end of calendar year 2011 (FY12), with an early estimated cost in excess of 1.8 million dollars; additionally, the long-planned sewer improvements project is anticipated to be completed 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 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 of Mount Vernon has applied for various federal and state grants, one of which is intended to urbanize and create a roundabout at the intersection of Highway 30 and Highway 1 corridor and also at the intersection at 10th Avenue and Highway 30; it remains to be seen, however, if the City of Mount Vernon will be the recipient of any federal grants that may be 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 to the 2010-2011 budget; however, new initiatives discussed to be implemented in further budgets include a new community center; community visioning projects, uptown main street and street scapings funds become available through LOSST-3 funding (to begin July 1, 2014 for a term of 20 years) and possible bond sales; infrastructure projects planned include storm water improvement projects, additional street overlays and reconstruction and other infrastructure related projects. Funding for these infrastructure related projects will come from residual monies remaining in the Build America Bonds and LOSST-2 infrastructure funding, as the water and sewer utilities cannot bear any additional expenses to fund these types of projects at this juncture. 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. Revenue from the hotel/motel tax is projected to bring in approximately \$50,000 annually. 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.

The City's governmental cash balance from all sources, including transfers and the sale of bonds, increased by approximately \$130,000 in fiscal year 2011; however, a decrease in the enterprise fund net assets of approximately \$145,000 offset this increase, leaving a net overall decrease of \$15,000 for fiscal year 2011. The City still has sufficient cash reserves in spite of this decrease.

**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 2009 through 2012 are as follows:

<u>Property Classification</u>	<u>FY2012</u>	<u>FY2011</u>	<u>FY2010</u>	<u>FY2009</u>
Residential	48.5299%	46.9094%	45.5893%	44.0853%
Commercial	100%	100%	100%	99.7312%
Agricultural	100%	100%	100%	100%
Industrial	100%	100%	100%	100%

As a side note, the residential classification for roll-back for FY13 is expected to increase to 50.7518%; commercial and industrial will remain at 100% and agriculture will be set at 57.5411% (of which the City has little land in this classification in its corporate limits). Legislature was proposed in the 2011 session of the Iowa Legislature for some sort of property tax reform, primarily aimed at reducing the percentage charged to commercial and industrial property classifications. There was no legislation enacted this year, but as time goes on, management is predicting some sort of property tax reform, the effect on residential users yet to be determined.

The January 1, 2010 property tax valuation serves as the basis for calculating property taxes for 2012. 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. 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. Between the 2000 census and the 2010 census, the population of Mount Vernon grew by 33%. 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, 2011

	Program Receipts			
Disbursements	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	
<b>Functions/Programs:</b>				
Governmental activities:				
Public safety	\$ 727,507	\$ 10,021	\$ 7,513	\$ -
Public works	336,272	-	388,503	-
Culture and recreation	418,667	127,406	4,360	-
Community and economic development	52,829	-	-	-
General government	414,880	100,661	-	-
Debt service	1,145,441	-	-	-
Capital projects	1,276,918	-	-	22,166
Total governmental activities	4,372,514	238,088	400,376	22,166
Business type activities:				
Storm water	9,368	36,436	-	-
Water	439,821	502,143	-	-
Sewer	559,134	733,716	-	-
Solid waste	404,692	278,217	-	-
Total business type activities	1,413,015	1,550,512	-	-
Total	\$ 5,785,529	\$ 1,788,600	\$ 400,376	\$ 22,166
<b>General Receipts and Transfers:</b>				
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**

<b>Governmental Activities</b>	<b>Business Type Activities</b>	<b>Total</b>
\$ (709,973)	\$ -	\$ (709,973)
52,231	-	52,231
(286,901)	-	(286,901)
(52,829)	-	(52,829)
(314,219)	-	(314,219)
(1,145,441)	-	(1,145,441)
(1,254,752)	-	(1,254,752)
<u>(3,711,884)</u>	<u>-</u>	<u>(3,711,884)</u>
-	27,068	27,068
-	62,322	62,322
-	174,582	174,582
-	(126,475)	(126,475)
<u>-</u>	<u>137,497</u>	<u>137,497</u>
<u>(3,711,884)</u>	<u>137,497</u>	<u>(3,574,386)</u>
1,170,676	-	1,170,676
84,520	-	84,520
812,338	-	812,338
544,545	-	544,545
49,978	-	49,978
6,161	-	6,161
32,115	16,494	48,609
558,600	-	558,600
169,422	114,012	283,434
413,631	(413,631)	-
<u>3,841,986</u>	<u>(283,124)</u>	<u>3,558,861</u>

(continued)

**CITY OF MOUNT VERNON**

**Statement of Activities and Net Assets - Cash Basis**

As of and for the year ended June 30, 2011

	<u>Program Receipts</u>		
	<u>Charges for</u>	<u>Operating</u>	<u>Capital</u>
	<u>Services</u>	<u>Grants,</u>	<u>Grants,</u>
		<u>Contributions</u>	<u>Contributions</u>
	<u>Disbursements</u>	<u>and Restricted</u>	<u>and Restricted</u>
		<u>Interest</u>	<u>Interest</u>
<b>CHANGE IN CASH BASIS NET ASSETS</b>			
<b>CASH BASIS NET ASSETS, BEGINNING OF YEAR</b>			
<b>CASH BASIS NET ASSETS, END OF YEAR</b>			
<b>CASH BASIS NET ASSETS</b>			
Restricted:			
Nonexpendable:			
Cemetery perpetual care			
Expendable:			
Urban renewal purposes			
Debt service			
Streets			
Other purposes			
Unrestricted			
<b>TOTAL CASH BASIS NET ASSETS</b>			

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

<b>Governmental Activities</b>	<b>Business Type Activities</b>	<b>Total</b>
130,102	(145,627)	(15,525)
<u>6,392,344</u>	<u>597,392</u>	<u>6,989,736</u>
<u>\$ 6,522,446</u>	<u>\$ 451,765</u>	<u>\$ 6,974,211</u>

\$ 79,585    \$ -    \$ 79,585

394,477    -    394,477  
 52,984    -    52,984  
 146,056    -    146,056  
 2,806,682    -    2,806,682  
3,042,662    451,765    3,494,427

\$ 6,522,446    \$ 451,765    \$ 6,974,211

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, 2011**

	<b>Special Revenue</b>		
	<b>General</b>	<b>Urban Renewal Tax Increment</b>	<b>Local Option Sales Tax</b>
<b>RECEIPTS:</b>			
Property tax	\$ 778,721	\$ -	\$ -
Tax increment financing	-	812,338	-
Other city tax	70,100	-	544,545
Licenses and permits	71,759	-	-
Use of money and property	37,816	3,460	7,311
Intergovernmental	18,275	-	-
Charges for service	135,642	-	-
Miscellaneous	105,946	-	-
	<u>1,218,259</u>	<u>815,798</u>	<u>551,856</u>
<b>DISBURSEMENTS:</b>			
Operating:			
Public safety	727,507	-	-
Public works	-	-	-
Culture and recreation	418,667	-	-
Community and economic development	52,829	-	-
General government	309,602	-	-
Debt service	-	-	-
Capital projects	-	-	397,326
	<u>1,508,605</u>	<u>-</u>	<u>397,326</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(290,346)</u>	<u>815,798</u>	<u>154,530</u>
<b>OTHER FINANCING SOURCES (USES):</b>			
Bond proceeds	-	-	536,600
Operating transfers in	223,060	-	-
Operating transfers out	(12,050)	(768,435)	(939)
	<u>211,010</u>	<u>(768,435)</u>	<u>535,661</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>
\$ 84,520	\$ -	\$ -	\$ 371,832	\$ 1,235,073
-	-	-	-	812,338
294	-	-	-	614,939
-	-	-	-	71,759
-	3,460	9,059	1,636	62,742
-	-	-	410,669	428,944
-	-	-	-	135,642
57,720	-	2,942	2,340	168,948
<u>142,534</u>	<u>3,460</u>	<u>12,001</u>	<u>786,477</u>	<u>3,530,385</u>
-	-	-	-	727,507
-	-	-	336,272	336,272
-	-	-	-	418,667
-	-	-	-	52,829
-	-	-	105,278	414,880
1,145,441	-	-	-	1,145,441
-	42,634	526,616	310,342	1,276,918
<u>1,145,441</u>	<u>42,634</u>	<u>526,616</u>	<u>751,892</u>	<u>4,372,514</u>
<u>(1,002,907)</u>	<u>(39,174)</u>	<u>(514,615)</u>	<u>34,585</u>	<u>(842,129)</u>
-	-	-	22,000	558,600
1,284,870	-	-	12,989	1,520,919
-	(11,977)	(27,946)	(285,941)	(1,107,288)
<u>1,284,870</u>	<u>(11,977)</u>	<u>(27,946)</u>	<u>(250,952)</u>	<u>972,231</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, 2011**

	<b>Special Revenue</b>		
<b>General</b>	<b>Urban Renewal Tax Increment</b>	<b>Local Option Sales Tax</b>	
<b>NET CHANGE IN CASH BALANCES</b>	(79,336)	47,363	690,191
<b>CASH BALANCES, BEGINNING OF YEAR</b>	528,686	347,114	2,103,928
<b>CASH BALANCES, END OF YEAR</b>	\$ 449,350	\$ 394,477	\$ 2,794,119
 <b>Cash Basis Fund Balances</b>			
Nonspendable - Cemetery perpetual care	\$ -	\$ -	\$ -
Restricted for:			
Urban renewal	-	394,477	-
Streets	-	-	-
Debt service	-	-	-
Other purposes	-	-	2,794,119
Assigned for:			
Street improvement	-	-	-
Fire station	-	-	-
Water improvements	-	-	-
Sewer improvements	-	-	-
Unassigned	449,350	-	-
<b>Total cash basis fund balance</b>	<b>\$ 449,350</b>	<b>\$ 394,477</b>	<b>\$ 2,794,119</b>

Exhibit B

Debt Service	Capital Projects			Total
	2006/2009 Water Improvement	2009 Sanitary Sewer	Nonmajor	
281,963	(51,151)	(542,561)	(216,367)	130,102
(228,979)	833,530	1,932,408	875,657	6,392,344
<u>\$ 52,984</u>	<u>\$ 782,379</u>	<u>\$ 1,389,847</u>	<u>\$ 659,290</u>	<u>\$ 6,522,446</u>
\$ -	\$ -	\$ -	\$ 79,585	\$ 79,585
-	-	-	-	394,477
-	-	-	146,056	146,056
52,984	-	-	-	52,984
-	-	-	12,563	2,806,682
-	-	-	107,000	107,000
-	-	-	374,213	374,213
-	782,379	-	-	782,379
-	-	1,389,847	-	1,389,847
-	-	-	(60,127)	389,223
<u>\$ 52,984</u>	<u>\$ 782,379</u>	<u>\$ 1,389,847</u>	<u>\$ 659,290</u>	<u>\$ 6,522,446</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, 2011

	Enterprise				Total
	Water	Sewer	Solid Waste	Nonmajor Storm Water	
<b>OPERATING RECEIPTS:</b>					
Charges for service	\$ 502,143	\$ 733,716	\$ 278,217	\$ 36,436	\$ 1,550,512
Miscellaneous	8,165	4,356	101,492	-	114,013
Total operating receipts	510,308	738,072	379,709	36,436	1,664,525
<b>OPERATING DISBURSEMENTS:</b>					
Business type activities	439,821	559,134	404,692	9,368	1,413,015
Excess (deficiency) of operating receipts over (under) operating disbursements	70,487	178,938	(24,983)	27,068	251,510
<b>NON-OPERATING RECEIPTS:</b>					
Interest on investments	8,594	3,460	4,012	428	16,494
Excess (deficiency) of receipts over (under) disbursements	79,081	182,398	(20,971)	27,496	268,004
<b>OTHER FINANCING USES:</b>					
Operating transfers out	(142,806)	(270,825)	-	-	(413,631)
<b>NET CHANGE IN CASH BALANCES</b>	(63,725)	(88,427)	(20,971)	27,496	(145,627)
<b>CASH BALANCES, BEGINNING OF YEAR</b>	(15,774)	349,099	189,992	74,075	597,392
<b>CASH BALANCES, END OF YEAR</b>	\$ (79,499)	\$ 260,672	\$ 169,021	\$ 101,571	\$ 451,765
<b>CASH BASIS FUND BALANCES:</b>					
Unrestricted	\$ (79,499)	\$ 260,672	\$ 169,021	\$ 101,571	\$ 451,765

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

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

**June 30, 2011**

**(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 the following categories/components:

## CITY OF MOUNT VERNON

### Notes to Financial Statements

June 30, 2011

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

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

*Nonexpendable restricted net assets* are subject to externally imposed stipulations which require them to be maintained permanently by the City, including the City's Permanent Fund.

*Expendable 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 not meeting the definition of the preceding categories. 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 from general and emergency levies 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 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.

**CITY OF MOUNT VERNON**

**Notes to Financial Statements**

**June 30, 2011**

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

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

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

**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.

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.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications - committed, assigned and then unassigned fund balances.

**CITY OF MOUNT VERNON**  
**Notes to Financial Statements**  
**June 30, 2011**

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

C. Measurement Focus and Basis of Accounting (continued)

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. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable - Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned - Amounts the Council intends to use for specific purposes.

Unassigned - All amounts not included in other spendable classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

F. Property Tax Calendar

The City's property tax rates were extended against the assessed valuation of the City as of January 1, 2009 to compute the amounts which became liens on property on July 1, 2010. These taxes were due and payable in two installments on September 30, 2010 and March 31, 2011, 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, 2011

#### (2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2011, 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, 2011, 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 December 1, 2010, the City issued \$160,000 in General Obligation Capital Loan Notes with an average interest of 1.31 percent to purchase land for a new fire station and to pay the costs of urban renewal projects. Interest is payable semi-annually on December 1 and June 1, commencing June 1, 2011. Principal payments are due each June 1, commencing June 1, 2012 through June 1, 2017.

On October 19, 2010, the City issued \$400,000 in General Obligation Capital Loan Notes with an average interest of 2.28 percent to build a new fire station. Net proceeds after payment of issuance costs and underwriter's premium of \$1,400 was \$398,600. Interest is payable semi-annually on December 1 and June 1, commencing June 1, 2011. Principal payments are due each June 1, commencing June 1, 2012 through June 1, 2017.

Interest paid on bonds and notes payable during the current year totaled \$358,092.

**CITY OF MOUNT VERNON**  
**Notes to Financial Statements**  
**June 30, 2011**

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

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

<b>Year Ending June 30,</b>	<b>General Obligation Bonds &amp; Notes</b>	
	<b><u>Principal</u></b>	<b><u>Interest</u></b>
2012	\$ 780,000	\$ 338,187
2013	705,000	313,301
2014	725,000	290,058
2015	765,000	264,546
2016	800,000	236,998
2017	675,000	207,088
2018	445,000	181,293
2019	420,000	163,515
2020	435,000	146,090
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>
<b>Total</b>	<b><u>\$8,180,000</u></b>	<b><u>\$2,769,813</u></b>

**(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, 2011, 2010 and 2009 were \$85,317, \$78,643 and \$68,561, respectively, equal to the required contributions for each year.

CITY OF MOUNT VERNON

Notes to Financial Statements

June 30, 2011

**(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, 2011, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 61,122
Sick leave	<u>79,063</u>
<b>Total</b>	<u>\$ 140,185</u>

This liability has been computed based on rates of pay in effect at June 30, 2011.

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) an employee who has worked less than 20 years shall receive one half of all accumulated sick leave pay. Based on this computation, the minimum accumulated sick leave approximates \$39,500 at June 30, 2011. Effective July 1, 2010, the City reduced the maximum number of vacation and sick leave hours certain employees can accrue.

The City is also potentially liable for severance pay and continued health coverage for three of its employees. If the employees' contracts are not renewed by the City Council, the City agrees to pay an amount equal to a specified number of months of the employees' salary and health coverage. Calculated based on rates of pay and the insured cost of health coverage as of June 30, 2011, the total per employee approximates \$53,123, \$28,351 and \$24,147, respectively.

**(6) Meter Deposits**

At June 30, 2011, the City was holding meter deposits from individuals in the amount of \$8,502.

**CITY OF MOUNT VERNON**  
**Notes to Financial Statements**  
**June 30, 2011**

**(7) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2011 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Capital Projects	General	\$ 10,000
	Special Revenue:	
	Local Option Sales Tax	939
		<u>10,939</u>
Debt Service	Capital Projects:	
	2007 Street Improvement	62,881
	2009 Sanitary Sewer	27,946
	2006/2009 Water Improvement	11,977
	Special Revenue:	
	Urban Renewal Tax Increment	768,435
	Enterprise:	
	Water	142,806
	Sewer	270,825
		<u>1,284,870</u>
General	Special Revenue:	
	Employee Benefits	197,377
	Emergency Levy	25,683
		<u>223,060</u>
Permanent:		
Cemetery Perpetual Care	General	<u>2,050</u>
Total		<u>\$ 1,520,919</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.

**CITY OF MOUNT VERNON**

**Notes to Financial Statements**

**June 30, 2011**

**(9) Deficit Balances**

The Capital Projects Fund, the Water Fund and the Insurance Levy Fund had deficit balances of \$57,445, \$79,499 and \$2,682, respectively, at June 30, 2011. 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 Insurance Levy Fund deficit balance was a result of unbudgeted insurance payments. This deficit will be eliminated through future property tax revenues.

**(10) Commitments**

The City has entered into various contracts, most of which are for capital projects, totaling \$3,117,771. Through June 30, 2011, \$753,426 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. Payment amounts under the contract are dependent upon the number of City residents.

**(11) Inter-fund Loan**

During the current year, a loan of \$10,000 was made from the General Fund to the Capital Projects Fund.

**(12) Subsequent Events**

Management evaluated subsequent events through December 2, 2011, the date the financial statements were available to be issued. Events or transactions occurring after June 30, 2011, but prior to December 2, 2011, that provided additional evidence about conditions that existed at June 30, 2011, have been recognized in the financial statements for the year ended June 30, 2011. Events or transactions that provided evidence about conditions that did not exist at June 30, 2011, 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, 2011.

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, 2011

	<b>Governmental Funds Actual</b>	<b>Proprietary Funds Actual</b>	<b>Less Funds not Required to be Budgeted</b>
<b>RECEIPTS:</b>			
Property tax	\$ 1,235,073	\$ -	\$ -
Tax increment financing	812,338	-	-
Other city tax	614,939	-	-
Licenses and permits	71,759	-	-
Use of money and property	62,742	16,494	-
Intergovernmental	428,944	-	-
Charges for service	135,642	1,550,512	-
Miscellaneous	168,948	114,013	-
	<u>3,530,385</u>	<u>1,681,019</u>	<u>-</u>
Total receipts			
<b>DISBURSEMENTS:</b>			
Public safety	727,507	-	-
Public works	336,272	-	-
Culture and recreation	418,667	-	-
Community and economic development	52,829	-	-
General government	414,880	-	-
Debt service	1,145,441	-	-
Capital projects	1,276,918	-	-
Business type activities	-	1,413,015	-
	<u>4,372,514</u>	<u>1,413,015</u>	<u>-</u>
Total disbursements			
Excess (deficiency) of receipts over (under) disbursements	(842,129)	268,004	-
<b>OTHER FINANCING SOURCES (USES), NET</b>			
	<u>972,231</u>	<u>(413,631)</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	130,102	(145,627)	-
<b>BALANCES, BEGINNING OF YEAR</b>			
	<u>6,392,344</u>	<u>597,392</u>	<u>-</u>
<b>BALANCES, END OF YEAR</b>			
	<u>\$ 6,522,446</u>	<u>\$ 451,765</u>	<u>\$ -</u>

Net	Budgeted Amounts		Final to Net Variance
	Original	Final	
\$ 1,235,073	\$ 1,231,128	\$ 1,153,147	\$ 81,926
812,338	766,455	766,455	45,883
614,939	592,781	592,781	22,158
71,759	51,800	58,000	13,759
79,236	73,375	110,800	(31,564)
428,944	2,469,219	2,469,219	(2,040,275)
1,686,154	1,712,254	1,712,254	(26,100)
282,961	52,700	108,420	174,541
<u>5,211,404</u>	<u>6,949,712</u>	<u>6,971,076</u>	<u>(1,759,672)</u>
727,507	699,771	743,271	15,764
336,272	388,996	388,996	52,724
418,667	344,445	462,795	44,128
52,829	54,023	54,023	1,194
414,880	412,477	450,977	36,097
1,145,441	1,139,471	1,262,471	117,030
1,276,918	3,289,000	3,289,000	2,012,082
1,413,015	5,618,685	5,723,185	4,310,170
<u>5,785,529</u>	<u>11,946,868</u>	<u>12,374,718</u>	<u>6,589,189</u>
(574,125)	(4,997,156)	(5,403,642)	4,829,517
<u>558,600</u>	<u>3,500,000</u>	<u>3,732,930</u>	<u>(3,174,330)</u>
(15,525)	(1,497,156)	(1,670,712)	1,655,187
<u>6,989,736</u>	<u>6,068,003</u>	<u>6,068,003</u>	<u>921,733</u>
<u>\$ 6,974,211</u>	<u>\$ 4,570,847</u>	<u>\$ 4,397,291</u>	<u>\$ 2,576,920</u>

See accompanying independent auditor's report.

## CITY OF MOUNT VERNON

### Notes to Required Supplementary Information - Budgetary Reporting

June 30, 2011

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 \$21,364 and disbursements by \$427,850. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2011, disbursements exceeded budgeted amounts in the culture and recreation function, prior to the budget being amended.

**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, 2011

	Special Revenue				
	Insurance Levy	Road Use Tax	Employee Benefits	Emergency Levy	Low- Moderate Income
Receipts:					
Property tax	\$ 84,740	\$ -	\$ 197,289	\$ 25,658	\$ -
Use of money and property	-	-	-	-	-
Intergovernmental	-	388,503	-	-	-
Miscellaneous	-	2,340	-	-	-
Total receipts	<u>84,740</u>	<u>390,843</u>	<u>197,289</u>	<u>25,658</u>	<u>-</u>
Disbursements:					
Operating:					
Public works	-	336,272	-	-	-
General government	105,278	-	-	-	-
Capital projects	-	-	-	-	-
Total disbursements	<u>105,278</u>	<u>336,272</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(20,538)</u>	<u>54,571</u>	<u>197,289</u>	<u>25,658</u>	<u>-</u>
Other financing sources (uses):					
Bond proceeds	-	-	-	-	-
Operating transfers in	-	-	-	-	-
Operating transfers out	-	-	(197,378)	(25,683)	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(197,378)</u>	<u>(25,683)</u>	<u>-</u>
Net change in cash balances	(20,538)	54,571	(89)	(25)	-
Cash balances, beginning of year	<u>17,856</u>	<u>91,485</u>	<u>1,882</u>	<u>258</u>	<u>10,537</u>
Cash balances, end of year	<u><u>\$ (2,682)</u></u>	<u><u>\$ 146,056</u></u>	<u><u>\$ 1,793</u></u>	<u><u>\$ 233</u></u>	<u><u>\$ 10,537</u></u>
<b>Cash Basis Fund Balances</b>					
Nonspendable - cemetery perpetual care	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted for:					
Streets	-	146,056	-	-	-
Other	-	-	1,793	233	10,537
Assigned for:					
Street improvements	-	-	-	-	-
Fire department	-	-	-	-	-
Unassigned	<u>(2,682)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total cash basis fund balances	<u><u>\$ (2,682)</u></u>	<u><u>\$ 146,056</u></u>	<u><u>\$ 1,793</u></u>	<u><u>\$ 233</u></u>	<u><u>\$ 10,537</u></u>

Schedule 1

Capital Projects			Permanent	
2007 Street Improvement	Fire Department	Capital Projects	Cemetery Perpetual Care	Total
\$ -	\$ 64,145	\$ -	\$ -	\$ 371,832
1,636	-	-	-	1,636
-	-	22,166	-	410,669
-	-	-	-	2,340
<u>1,636</u>	<u>64,145</u>	<u>22,166</u>	<u>-</u>	<u>786,477</u>
-	-	-	-	336,272
-	-	-	-	105,278
<u>221,841</u>	<u>-</u>	<u>88,501</u>	<u>-</u>	<u>310,342</u>
<u>221,841</u>	<u>-</u>	<u>88,501</u>	<u>-</u>	<u>751,892</u>
<u>(220,205)</u>	<u>64,145</u>	<u>(66,335)</u>	<u>-</u>	<u>34,585</u>
-	-	22,000	-	22,000
-	-	10,939	2,050	12,989
<u>(62,880)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(285,941)</u>
<u>(62,880)</u>	<u>-</u>	<u>32,939</u>	<u>2,050</u>	<u>(250,952)</u>
<u>(283,085)</u>	<u>64,145</u>	<u>(33,396)</u>	<u>2,050</u>	<u>(216,367)</u>
<u>390,085</u>	<u>310,068</u>	<u>(24,049)</u>	<u>77,535</u>	<u>875,657</u>
<u>\$ 107,000</u>	<u>\$ 374,213</u>	<u>\$ (57,445)</u>	<u>\$ 79,585</u>	<u>\$ 659,290</u>
\$ -	\$ -	\$ -	\$ 79,585	\$ 79,585
-	-	-	-	146,056
-	-	-	-	12,563
107,000	-	-	-	107,000
-	374,213	-	-	374,213
<u>-</u>	<u>-</u>	<u>(57,445)</u>	<u>-</u>	<u>(60,127)</u>
<u>\$ 107,000</u>	<u>\$ 374,213</u>	<u>\$ (57,445)</u>	<u>\$ 79,585</u>	<u>\$ 659,290</u>

CITY OF MOUNT VERNON

Schedule of Indebtedness

Year ended June 30, 2011

<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
2010A Fire station construction	Oct. 19, 2010	.9-2.85%	400,000
2010B Land purchase	Dec. 1, 2010	.46-1.81%	160,000
Total			

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>
\$ 790,000	\$ -	\$ 120,000	\$ 670,000	\$ 30,050	\$ -
3,495,000	-	310,000	3,185,000	139,800	-
160,000	-	80,000	80,000	5,120	-
360,000	-	40,000	320,000	11,063	-
3,500,000	-	135,000	3,365,000	164,915	-
100,000	-	100,000	-	1,523	-
-	400,000	-	400,000	4,750	-
-	160,000	-	160,000	871	-
<u>\$8,405,000</u>	<u>\$ 560,000</u>	<u>\$ 785,000</u>	<u>\$8,180,000</u>	<u>\$ 358,092</u>	<u>\$ -</u>

## CITY OF MOUNT VERNON

## Bond and Note Maturities

June 30, 2011

## General Obligation Bonds and Capital Loan Notes

Year ending June 30,	2006 Water Improvements		2007 Capital Improvements		2008 Capital Improvements		2009A Sewer Improvements	
	Issued April 1, 2006		Issued May 1, 2007		Issued November 17, 2008		Issued July 1, 2009	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2012	3.75%	\$ 125,000	4.00%	\$ 325,000	3.30%	\$ 80,000	2.50%	\$ 40,000
2013	3.75%	125,000	4.00%	335,000	-	-	2.50%	45,000
2014	3.80%	135,000	4.00%	345,000	-	-	3.25%	40,000
2015	3.85%	140,000	4.00%	365,000	-	-	3.25%	45,000
2016	3.90%	145,000	4.00%	380,000	-	-	3.25%	50,000
2017	-	-	4.00%	395,000	-	-	3.75%	50,000
2018	-	-	4.00%	190,000	-	-	3.75%	50,000
2019	-	-	4.00%	200,000	-	-	-	-
2020	-	-	4.00%	210,000	-	-	-	-
2021	-	-	4.00%	215,000	-	-	-	-
2022	-	-	4.00%	225,000	-	-	-	-
2023	-	-	-	-	-	-	-	-
2024	-	-	-	-	-	-	-	-
2025	-	-	-	-	-	-	-	-
2026	-	-	-	-	-	-	-	-
2027	-	-	-	-	-	-	-	-
2028	-	-	-	-	-	-	-	-
2029	-	-	-	-	-	-	-	-
		<u>\$ 670,000</u>		<u>\$ 3,185,000</u>		<u>\$ 80,000</u>		<u>\$ 320,000</u>

Year ending June 30,	2009B Sewer/Water Improvements		2010A Fire Station Construction		2010B Land Purchase		Total
	Issued September 22, 2009		Issued October 19, 2010		Issued December 1, 2010		
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
2012	2.25%	\$ 135,000	0.90%	\$ 40,000	0.46%	\$ 35,000	\$ 780,000
2013	2.50%	140,000	1.00%	40,000	0.65%	20,000	705,000
2014	3.25%	140,000	1.25%	40,000	0.93%	25,000	725,000
2015	3.50%	145,000	1.60%	45,000	1.20%	25,000	765,000
2016	4.00%	155,000	1.90%	45,000	1.50%	25,000	800,000
2017	4.25%	155,000	2.20%	45,000	1.81%	30,000	675,000
2018	4.50%	160,000	2.45%	45,000	-	-	445,000
2019	4.75%	170,000	2.70%	50,000	-	-	420,000
2020	5.00%	175,000	2.85%	50,000	-	-	435,000
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%	265,000	-	-	-	-	265,000
		<u>\$ 3,365,000</u>		<u>\$ 400,000</u>		<u>\$ 160,000</u>	<u>\$ 8,180,000</u>

## CITY OF MOUNT VERNON

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

## For the Last Seven Years

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Receipts:							
Property tax	\$ 1,235,073	\$ 1,155,472	\$ 1,025,006	\$ 1,142,527	\$ 991,801	\$ 854,772	\$ 876,918
Tax increment financing collections	812,338	759,471	899,722	333,708	595,021	739,361	613,934
Other city tax	614,939	609,832	126,127	74,599	103,758	560,300	518,229
Licenses and permits	71,759	58,929	84,542	69,276	57,439	90,086	72,072
Use of money and property	62,742	57,413	54,388	89,050	102,637	43,350	29,333
Intergovernmental	428,944	404,529	369,307	367,161	355,094	342,940	333,602
Charges for service	135,642	119,055	95,746	120,979	107,965	113,589	93,816
Miscellaneous	<u>168,948</u>	<u>102,730</u>	<u>81,604</u>	<u>108,347</u>	<u>71,189</u>	<u>84,446</u>	<u>117,918</u>
Total	<u>\$ 3,530,385</u>	<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>
Disbursements:							
Operating:							
Public safety	\$ 727,507	\$ 632,578	\$ 647,294	\$ 576,270	\$ 548,890	\$ 528,275	\$ 518,300
Public works	336,272	392,934	379,826	330,170	264,064	380,354	363,862
Culture and recreation	418,667	358,976	325,455	294,977	284,887	269,225	310,357
Community and economic development	52,829	67,948	69,516	77,194	54,270	38,541	21,715
General government	414,880	372,293	363,621	288,571	270,390	265,636	265,671
Debt service	1,145,441	1,595,321	602,659	728,040	2,366,083	511,753	518,900
Capital projects	<u>1,276,918</u>	<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>
Total	<u>\$ 4,372,514</u>	<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>

**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, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents, and have issued our report thereon dated December 2, 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control over financial reporting, one we consider to be a material weakness and the other deficiency 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-11 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which 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 item II-A-11 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, 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*.

We noted certain other matters that we reported to management of the City in a separate letter dated December 2, 2011.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2011 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. While we have expressed our conclusions on the City's 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  
December 2, 2011

**CITY OF MOUNT VERNON**

**Schedule of Findings and Responses**

**Year ended June 30, 2011**

**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-11: 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, 2011**

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

**INTERNAL CONTROL DEFICIENCIES:** (CONTINUED)

**II-A-11: 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-11: 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, 2011**

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

**INTERNAL CONTROL DEFICIENCIES:** (CONTINUED)

**II-B-11: 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, 2011

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

- III-A-11 Certified Budget - 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-11 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-11 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- III-D-11 Business Transactions - No business transactions between the City and City officials or employees were noted.
- III-E-11 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 ensure that the coverage is adequate for current operations.
- III-F-11 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.
- III-G-11 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, 2011**

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

III-H-11 Financial Condition - The Capital Projects Fund, the Water Fund and the Insurance Levy Fund had deficit balances at June 30, 2011 of \$57,445, \$79,499 and \$2,682, 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 rates. The Insurance Levy Fund deficit was due to unbudgeted insurance payments. This deficit will be eliminated through future property tax revenues.

Conclusion - Response accepted.



December 2, 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, 2011, and have issued our report thereon dated December 2, 2011. In connection with our audit engagement, we noted the following matters which we would like to bring to your attention.

During credit card testing we noted that receipts for gasoline purchases are not being maintained. Since the credit cards are held at the gas station, this opens up the risk that non city-related purchases could occur without being noticed. We recommend collecting receipts and matching them to gas station statements.

During credit card testing we noted there are a number of cards that are no longer being used or active status was indeterminable. We recommend that accounts be closed on credit cards that are no longer being used.

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 this review process.

There currently is not a review process relating to journal entries. Even though few journal entries are made, there should be a process where all entries are reviewed by a supervisor.

During our review of council minutes, we noted that check numbers were not listed on the claims listing. We recommend that the claims listing, which is reviewed by the council, include check numbers as a means of ensuring completeness so that all checks are accounted for and reviewed.

To improve controls over cash disbursements, we recommend that the Deputy City Clerk not have the ability to both prepare and sign checks. We also recommend that someone other than the preparer of the check voucher review and approve the general ledger account coding noted on the voucher.

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*