

CITY OF MOUNT VERNON, IOWA
INDEPENDENT AUDITORS' REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2012

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CITY OF MOUNT VERNON

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Scott C. Peterson	Mayor	December 31, 2015
Marty Christensen	Council Member	December 31, 2013
Slaton Anthony	Council Member	December 31, 2013
Marianne Taylor	Council Member	December 31, 2015
Steve P. Maurice	Council Member	December 31, 2015
Jamie Hampton	Council Member	December 31, 2015
Michael R. Beimer	City Administrator/Clerk	Indefinite
Robert Hatala	Attorney	Indefinite
Abbi Stensland	Attorney	Indefinite



Independent Auditors' 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 (the City), as of and for the year ended June 30, 2012, 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, 2012, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 4, 2013 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 17 and 33 through 34 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 seven years ended June 30, 2011 (which are not presented herein) and expressed unqualified opinions on those financial statements, which were prepared in conformity with an other comprehensive basis of accounting. The combining and individual fund financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

CliftonLarsonAllen LLP

Cedar Rapids, Iowa
January 4, 2013

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, 2012. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2012 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities increased 1.1%, from \$3,530,385 (not including bond proceeds) to \$3,569,037, from fiscal year 2011 to fiscal year 2012. 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, 2012, amounts to \$1,214,891. The revenues received from LOST-1 receipts are designated 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 new fire station project, which was completed in the Spring of 2012). 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 the 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 \$441,085 as of June 30, 2012, and the LOST-2 fund standing at \$773,806, for a cumulative total of \$1,214,891 as of June 30, 2012. In fiscal year 2011 the City also received \$558,600 of bond proceeds compared to none received in fiscal year 2012.
- Disbursements for governmental activities increased 58.3%, from \$4,372,514 to \$6,921,468, from fiscal year 2011 to fiscal year 2012. Public works, culture and recreation, community and economic development, general government and capital projects disbursements increased approximately \$93,380, \$54,230, \$16,559, \$70,131 and \$2,431,179, respectively. Public safety and debt service disbursements decreased \$91,845 and \$24,680, respectively.
- The City's total cash basis net assets decreased from \$6,974,211 to \$4,035,501, from June 30, 2011 to June 30, 2012. This change was a result of a decrease in governmental activities net assets of \$2,972,302 netted against an increase in net assets for business type activities of \$33,592.

- 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. Note: The Budget Control Act of 2011 requires automatic funding reductions in the event Congress fails to enact legislation cutting the Federal deficit by \$1.2 trillion before January 2, 2013. As of the date of this writing, the Office of Budget and Management submitted a report to Congress estimating the amount of automatic funding reductions required in the event Congress fails to pass such legislation. According to the report, the funding reductions would include a 7.6% reduction in Federal subsidy payments to issuers of Build America Bonds. The City issued Build America Bonds in 2009 (series 2009B) which will be affected if the automatic funding reductions occur. The City is obligated to make the principal and interest payments on the 2009B bonds whether or not the full subsidy payments are received. Because the 2009B series is a general obligation of the City, the City has the authority to levy the full amount of interest needed for each payment, should the need arise. Management will track these developments and take action as deemed necessary. 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, a fourth 10% adjustment to water rates, by ordinance, was approved and enacted by Council. The fourth 10% increase in water rates as it was projected that the first 3 consecutive rate increases would not have been sufficient to eliminate the deficit between revenues and expenditures in the water utility, which necessitated an increase in water rates beyond the 3% yearly increase contained in the City ordinance regarding water rates. Management is projecting that by the end of calendar year 2014, the water utility will have sufficient revenues to cover expenditures, barring any unforeseen circumstances, by increasing operational efficiency, making certain intrafund transfers and utilizing debt service fund reserves. 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 FY14 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-Cash Basis. 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.

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

Supplementary Information provides detailed information about the nonmajor governmental funds and the 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-Cash Basis reports information which helps answer this question.

The Statement of Activities and Net Assets-Cash Basis 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-Cash Basis 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.
- Business Type Activities include the water system, 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 sanitary sewer funds, all of which are considered to be major funds of the City except for the storm water fund.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, from \$6,522,446 to \$3,550,144. 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>2012</u>	<u>2011</u>
Receipts:		
Program receipts:		
Charges for service	\$ 255	\$ 238
Operating grants, contributions and restricted interest	453	400
Capital grants, contributions and restricted interest	-	22
General receipts:		
Property tax	2,075	2,068
Local option sales tax	570	545
Hotel/motel taxes	58	50
Grants and contributions not restricted to specific purposes	5	6
Unrestricted interest on investments	14	32
Other general receipts	140	169
Bond proceeds	-	<u>559</u>
Total receipts	<u>3,570</u>	<u>4,089</u>
Disbursements:		
Public safety	636	728
Public works	430	336
Culture and recreation	473	419
Community and economic development	69	53
General government	485	415
Debt service	1,121	1,145
Capital projects	<u>3,708</u>	<u>1,277</u>
Total disbursements	<u>6,922</u>	<u>4,373</u>
Change in cash basis net assets before transfers	(3,352)	(284)
Transfers, net	<u>380</u>	<u>414</u>
Change in cash basis net assets	(2,972)	130
Cash basis net assets, beginning of year	<u>6,522</u>	<u>6,392</u>
Cash basis net assets, end of year	<u>\$ 3,550</u>	<u>\$ 6,522</u>

The City's total receipts for governmental activities decreased by 12.7%, or \$519,948. Prior year receipts included \$558,600 of bond proceeds, where none were received in the current year. The total cost of all governmental programs and services increased by \$2,548,954, or 58.3%, with no new programs added this year. Of this amount, \$2,431,179 relates to an increase in capital project expenditures.

The City property tax rate for 2012 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 19 years. The property tax levy rate for fiscal year 2012 remained at the same rate of 12.99%; the same rate was applied for FY13. Based on increases in the total assessed valuation, with the primary increases being derived from new construction and a county wide property tax reassessment program, property tax receipts are projected to increase. Note: The commercial classifications have been re-assessed with calculations by an independent appraiser (Vanguard Appraisals) increasing this classification. The overall increase is 9.78%; some properties showed a decrease, some neutral and some an increase. The same process is being applied to residential properties for the upcoming year for taxable valuations.

The cost of all governmental activities this year was \$6,921,468, compared to \$4,372,514 last year. However, as shown in the Statement of Activities and Net Assets-Cash Basis on page 19, the amount taxpayers ultimately financed for these activities was only \$6,213,338 because some of the cost was paid by those who directly benefited from the programs (charges for service \$254,655) or by other governments and organizations that subsidized certain programs with grants and contributions of \$453,475. Overall, the City's governmental activities program receipts, including intergovernmental aid and fees for service, increased in fiscal year 2012 from \$660,630 to \$708,130.

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

	Year Ended June 30,	
	<u>2012</u>	<u>2011</u>
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 563	\$ 502
Sewer	755	734
Solid waste	278	278
Storm water	37	37
General receipts:		
Unrestricted interest on investments	9	17
Other general receipts	137	114
Total receipts	1,779	1,682
Disbursements:		
Water	373	440
Sewer	509	559
Solid waste	390	405
Storm water	94	9
Total disbursements	1,366	1,413

	<u>Year Ended June 30,</u>	
	<u>2012</u>	<u>2011</u>
Change in cash basis net assets before transfers	413	269
Transfers, net	<u>(380)</u>	<u>(414)</u>
Change in cash basis net assets	33	(145)
Cash basis net assets, beginning of year	<u>452</u>	<u>597</u>
Cash basis net assets, end of year	<u>\$ 485</u>	<u>\$ 452</u>

Total business type activities receipts for the fiscal year were \$1,779,699 compared to \$1,681,019 last year. The cash balance increased \$33,592 from the prior year. Total disbursements for the fiscal year decreased by 3.33%, to a total of \$1,365,978.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As Mount Vernon completed the year, its governmental funds reported a combined fund balance of \$3,550,144, a decrease of \$2,972,302 from last year's total of \$6,522,446. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$84,078 from the prior year to \$533,428.
- 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 \$420,622, an increase of \$26,145 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 decreased \$1,579,228 during the fiscal year. The City has been using these funds for a new fire station and infrastructure-related projects.
- The Special Revenue, Road Use Tax Fund cash balance increased \$1,740 to \$147,796 as the City expended the majority of its current year road use tax allocation on streets, sidewalks and other street-related projects.

- The Debt Service Fund cash balance of \$54,421 is an increase of \$1,437 over the prior year balance of \$52,984. This balance has been factored into the FY13 operating budget to further reduce the deficit currently existing in the water utility. As a side note, in September, 2012, the City had an advance refunding of the 2006 G.O. Capital Loan Notes, with an estimated savings of \$25,000 after paying all attributable expenses for defeasing the old bond. This savings will be posted to the water utility, further reducing the current deficit in that fund.
- The Capital Projects, Fire Department Fund cash balance decreased by \$2,153 to \$372,060 due to the expenditure of the fire department levy on new equipment and other capital equipment.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Enterprise, Water Fund cash balance increased by \$71,718 to \$(7,781), due primarily to an increase in water rates, a decrease in program expenditures, and a decrease in the amount transferred out of the fund.
- The Enterprise, Sewer Fund cash balance increased by \$5,703 to \$266,375, due primarily to an increase in sewer rates, a decrease in program expenditures, and a decrease in the amount transferred out of the fund.
- The Enterprise, Solid Waste Fund cash balance increased \$12,028 to \$181,049 due primarily to an increase in rates and a decrease in program expenditures. The present contract expired with the hauler, Wapsi Waste Services, on June 30, 2012. The City re-negotiated a 5-year contract with Wapsi before the contract ended. As the new contract called for an increase in compensation due to fuel costs, landfill costs, maintenance and equipment costs incurred by the contract hauler, the Council, by Ordinance, increased the rates for monthly service fees and tag sales accordingly to offset the increase. The cost of tags went from \$2.50 each to \$3.00 each and the monthly residential service charge went from \$9.00 per month to \$10.50 per month. As commercial rates were in line, no increases for that classification were incurred. The new rates took effect July 1, 2012, at the start of FY13. It is anticipated that no further increases in rates will be necessary during the life of the new contract, barring any unforeseen circumstances.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once, in May 2012. The amendment was approved on May 21, 2012, and resulted in an increase in operating disbursements related to cost overruns of approximately \$110,000 for public safety, \$10,000 for public works, \$11,000 for community and economic development, \$143,600 for culture and recreation, and \$51,000 for general government. An additional \$215,000 of expenditures was added to the budget for business type activities. The amounts budgeted for capital project disbursements and other financing sources were reduced by \$300,000 and \$200,000, respectively.

DEBT ADMINISTRATION

At June 30, 2012, the City had \$7,400,000 in bonds and other long-term debt, compared to \$8,180,000 last year.

Debt decreased as a result of payments made and no new debt was issued during the year.

The City does now carry a general obligation bond rating assigned by the national rating agency Standard and Poors of an "A" 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 \$7,400,000 is below its constitutional debt limit of \$10,832,733 as of June 30, 2012.

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 2013 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 2011-2012, 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 2012-2013, 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 2012-2013. 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 2012

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 2012. Amounts available for appropriation in the operating budget increased over the 2011 budget, the majority of which was for additional planned capital improvements projects. The new fire station completed in the spring of 2012 with an estimated cost in excess of \$2 million dollars; the long-planned sewer improvements project 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, lead these increases. The City used 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 aforementioned 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. Several years ago the City also drilled two new wells and a second municipal water treatment in the northeast sector of town to accommodate a growing demand for water and to stay proactive with regards to consumer demand and anticipated growth. This initiative cost approximately \$1 million, also necessitating a rise in consumer rates and the previously mentioned Build America Bond sale to cover these costs. The City of Mount Vernon has applied for and received various federal and state grants, the largest of which is intended to urbanize and create a roundabout at the intersection of Highway 30 and Highway One corridor and also at the intersection at 10th Avenue and Highway 30; bids for this major project are slated to be taken in February, 2013. The City intends to apply for any grants that may become available, such as a "Quiet Zones" grant, for the Union Pacific crossing at 8TH Avenue NW. The City has added no major new programs to the 2011-2012 budget; however, new initiatives discussed to be implemented in further budgets include a new community center; community visioning projects, uptown main street and streetscaping funds as they become available through LOSST-3, commencing July 1, 2014 funding 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 the Community Development Board (CDG) 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 2012 and 2013, the City again made the conscious 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.

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 2010 through 2013 are as follows:

<u>Property Classification</u>	<u>FY2013</u>	<u>FY2012</u>	<u>FY2011</u>	<u>FY2010</u>
Residential	50.7518%	48.5299%	46.9094%	45.5893%
Commercial	100%	100%	100%	100%
Agricultural	57.5411%	100%	100%	100%
Industrial	100%	100%	100%	100%

As a side note, the residential classification for roll-back for FY13, as shown in the chart above, will 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 2012 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. At the time of this writing, the rollback rates for FY14 have been set as follows: 52.8166%, agricultural 59.9334% and commercial and industrial unchanged at 100%. 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, 2011 property tax valuation serves as the basis for calculating property taxes for 2013. 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 in past years has been an annual rolling-back of residential values, although that trend is now increasing rather than decreasing. A significant decline in agricultural land productivity traditionally has resulted in low values on agricultural land for tax purposes. The limitation can also be applied to industrial and commercial property when necessary. This low value has resulted in a significant adjustment to residential property taxes. It is hoped that the roll-back will recover slightly, in an even-numbered year without revaluation of existing properties and equalization orders being absent. However, as previously reported, the county has re-assessed commercial properties with an average increase for Mount Vernon coming in at 9.78%; the same re-assessments are underway for the residential sector in Mount Vernon through Linn County. The City of Mount Vernon has realized substantial residential growth in the last decade, which has partially offset past years declines 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, 2012

	Program Receipts				Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
	Disbursements	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
Functions/Programs:							
Governmental activities:							
Public safety	\$ 635,662	\$ 5,345	\$ 23,276	\$ -	\$ (607,041)	\$ -	\$ (607,041)
Public works	429,652	-	430,099	-	447	-	447
Culture and recreation	472,897	144,232	100	-	(328,565)	-	(328,565)
Community and economic development	69,388	-	-	-	(69,388)	-	(69,388)
General government	485,011	105,078	-	-	(379,933)	-	(379,933)
Debt service	1,120,761	-	57,012	-	(1,063,749)	-	(1,063,749)
Capital projects	3,708,097	-	-	-	(3,708,097)	-	(3,708,097)
Total governmental activities	<u>6,921,468</u>	<u>254,655</u>	<u>510,487</u>	<u>-</u>	<u>(6,156,326)</u>	<u>-</u>	<u>(6,156,326)</u>
Business type activities:							
Storm water	93,965	36,810	-	-	-	(57,155)	(57,155)
Water	372,480	563,434	-	-	-	190,954	190,954
Sewer	509,207	755,642	-	-	-	246,435	246,435
Solid waste	390,326	277,759	-	-	-	(112,567)	(112,567)
Total business type activities	<u>1,365,978</u>	<u>1,633,645</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>267,667</u>	<u>267,667</u>
Total	<u>\$ 8,287,446</u>	<u>\$ 1,888,300</u>	<u>\$ 510,487</u>	<u>\$ -</u>	<u>\$ (6,156,326)</u>	<u>\$ 267,667</u>	<u>\$ (5,888,659)</u>
General Receipts and Transfers:							
Property and other city tax levied for:							
General purposes					1,314,900	-	1,314,900
Debt service					83,452	-	83,452
Tax increment financing					676,858	-	676,858
Local option sales tax					569,638	-	569,638
Hotel/motel taxes					57,837	-	57,837
Grants and contributions not restricted to specific purposes					4,618	-	4,618
Unrestricted interest on investments					16,872	9,141	26,013
Miscellaneous					79,720	136,913	216,633
Transfers					380,129	(380,129)	-
Total general receipts and transfers					<u>3,184,024</u>	<u>(234,075)</u>	<u>2,949,949</u>
CHANGE IN CASH BASIS NET ASSETS					<u>(2,972,302)</u>	<u>33,592</u>	<u>(2,938,710)</u>
CASH BASIS NET ASSETS, BEGINNING OF YEAR					<u>6,522,446</u>	<u>451,765</u>	<u>6,974,211</u>
CASH BASIS NET ASSETS, END OF YEAR					<u>\$ 3,550,144</u>	<u>\$ 485,357</u>	<u>\$ 4,035,501</u>

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

**Statement of Activities and Net Assets - Cash Basis
(continued)**

CASH BASIS NET ASSETS	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
Restricted:			
Nonexpendable:			
Cemetery perpetual care	\$ 80,575	\$ -	\$ 80,575
Expendable:			
Urban renewal purposes	420,622	-	420,622
Debt service	54,421	-	54,421
Streets	147,796	-	147,796
Other purposes	1,228,983	-	1,228,983
Unrestricted	<u>1,617,747</u>	<u>485,357</u>	<u>2,103,104</u>
TOTAL CASH BASIS NET ASSETS	<u>\$ 3,550,144</u>	<u>\$ 485,357</u>	<u>\$ 4,035,501</u>

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

CITY OF MOUNT VERNON
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances - Governmental Funds
As of and for the year ended June 30, 2012

	Special Revenue					Capital Projects			Total
	General	Road Use Tax	Urban Renewal Tax Increment	Local Option Sales Tax	Debt Service	Fire Department	2009 Sanitary Sewer	Nonmajor	
RECEIPTS:									
Property tax	\$ 873,809	\$ -	\$ -	\$ -	\$ 83,452	\$ 71,533	\$ -	\$ 348,502	\$ 1,377,296
Tax increment financing	-	-	676,858	-	-	-	-	-	676,858
Other city tax	78,893	-	-	569,638	-	-	-	-	648,531
Licenses and permits	72,490	-	-	-	-	-	-	-	72,490
Use of money and property	38,888	-	1,892	3,878	-	-	1,976	1,521	48,155
Intergovernmental	12,297	427,399	-	-	-	-	-	-	439,696
Charges for service	145,794	-	-	-	-	-	-	-	145,794
Miscellaneous	97,096	3,993	-	1,126	57,012	-	-	990	160,217
Total receipts	<u>1,319,267</u>	<u>431,392</u>	<u>678,750</u>	<u>574,642</u>	<u>140,464</u>	<u>71,533</u>	<u>1,976</u>	<u>351,013</u>	<u>3,569,037</u>
DISBURSEMENTS:									
Operating:									
Public safety	635,662	-	-	-	-	-	-	-	635,662
Public works	-	429,652	-	-	-	-	-	-	429,652
Culture and recreation	472,897	-	-	-	-	-	-	-	472,897
Community and economic development	69,388	-	-	-	-	-	-	-	69,388
General government	364,540	-	-	-	-	-	-	120,471	485,011
Debt service	-	-	-	-	1,120,761	-	-	-	1,120,761
Capital projects	-	-	-	2,055,017	-	73,686	823,251	756,143	3,708,097
Total disbursements	<u>1,542,487</u>	<u>429,652</u>	<u>-</u>	<u>2,055,017</u>	<u>1,120,761</u>	<u>73,686</u>	<u>823,251</u>	<u>876,614</u>	<u>6,921,468</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(223,220)</u>	<u>1,740</u>	<u>678,750</u>	<u>(1,480,375)</u>	<u>(980,297)</u>	<u>(2,153)</u>	<u>(821,275)</u>	<u>(525,601)</u>	<u>(3,352,431)</u>
OTHER FINANCING SOURCES (USES):									
Transfers in	297,298	-	-	-	981,734	-	-	-	1,279,032
Transfers out	-	-	(652,605)	-	-	-	-	(246,298)	(898,903)
Interfund loans made	-	-	-	(98,853)	-	-	-	98,853	-
Interfund loans paid	10,000	-	-	-	-	-	-	(10,000)	-
Total other financing sources (uses)	<u>307,298</u>	<u>-</u>	<u>(652,605)</u>	<u>(98,853)</u>	<u>981,734</u>	<u>-</u>	<u>-</u>	<u>(157,445)</u>	<u>380,129</u>
NET CHANGE IN CASH BALANCES	84,078	1,740	26,145	(1,579,228)	1,437	(2,153)	(821,275)	(683,046)	(2,972,302)
CASH BALANCES, BEGINNING OF YEAR	449,350	146,056	394,477	2,794,119	52,984	374,213	1,389,847	921,400	6,522,446
CASH BALANCES, END OF YEAR	<u>\$ 533,428</u>	<u>\$ 147,796</u>	<u>\$ 420,622</u>	<u>\$ 1,214,891</u>	<u>\$ 54,421</u>	<u>\$ 372,060</u>	<u>\$ 568,572</u>	<u>\$ 238,354</u>	<u>\$ 3,550,144</u>

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

CITY OF MOUNT VERNON
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances - Governmental Funds
As of and for the year ended June 30, 2012
 (continued)

	<u>Special Revenue</u>					<u>Capital Projects</u>			<u>Total</u>
	<u>General</u>	<u>Road Use Tax</u>	<u>Urban Renewal Tax Increment</u>	<u>Local Option Sales Tax</u>	<u>Debt Service</u>	<u>Fire Department</u>	<u>2009 Sanitary Sewer</u>	<u>Nonmajor</u>	
Cash Basis Fund Balances									
Nonspendable - Cemetery perpetual care	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 80,575	\$ 80,575
Restricted for:									
Urban renewal	-	-	420,622	-	-	-	-	-	420,622
Streets	-	147,796	-	-	-	-	-	-	147,796
Debt service	-	-	-	-	54,421	-	-	-	54,421
Other purposes	-	-	-	1,214,891	-	-	-	14,092	1,228,983
Assigned for:									
Fire station	-	-	-	-	-	372,060	-	-	372,060
Water improvements	-	-	-	-	-	-	-	220,168	220,168
Sewer improvements	-	-	-	-	-	-	568,572	-	568,572
Unassigned	533,428	-	-	-	-	-	-	(76,481)	456,947
Total cash basis fund balance	<u>\$ 533,428</u>	<u>\$ 147,796</u>	<u>\$ 420,622</u>	<u>\$ 1,214,891</u>	<u>\$ 54,421</u>	<u>\$ 372,060</u>	<u>\$ 568,572</u>	<u>\$ 238,354</u>	<u>\$ 3,550,144</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, 2012

Exhibit C

	<u>Enterprise</u>				
	<u>Water</u>	<u>Sewer</u>	<u>Solid Waste</u>	<u>Nonmajor Storm Water</u>	<u>Total</u>
OPERATING RECEIPTS:					
Charges for service	\$ 563,434	\$ 755,642	\$ 277,759	\$ 36,810	\$ 1,633,645
Miscellaneous	10,769	2,613	122,504	1,027	136,913
Total operating receipts	<u>574,203</u>	<u>758,255</u>	<u>400,263</u>	<u>37,837</u>	<u>1,770,558</u>
OPERATING DISBURSEMENTS:					
Business type activities	<u>372,480</u>	<u>509,207</u>	<u>390,326</u>	<u>93,965</u>	<u>1,365,978</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	201,723	249,048	9,937	(56,128)	404,580
NON-OPERATING RECEIPTS:					
Interest on investments	<u>4,887</u>	<u>1,892</u>	<u>2,091</u>	<u>271</u>	<u>9,141</u>
Excess (deficiency) of receipts over (under) disbursements	206,610	250,940	12,028	(55,857)	413,721
OTHER FINANCING USES:					
Transfers out	<u>(134,892)</u>	<u>(245,237)</u>	<u>-</u>	<u>-</u>	<u>(380,129)</u>
NET CHANGE IN CASH BALANCES	71,718	5,703	12,028	(55,857)	33,592
CASH BALANCES, BEGINNING OF YEAR	<u>(79,499)</u>	<u>260,672</u>	<u>169,021</u>	<u>101,571</u>	<u>451,765</u>
CASH BALANCES, END OF YEAR	<u>\$ (7,781)</u>	<u>\$ 266,375</u>	<u>\$ 181,049</u>	<u>\$ 45,714</u>	<u>\$ 485,357</u>
CASH BASIS FUND BALANCES:					
Unrestricted	<u>\$ (7,781)</u>	<u>\$ 266,375</u>	<u>\$ 181,049</u>	<u>\$ 45,714</u>	<u>\$ 485,357</u>

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

CITY OF MOUNT VERNON

Notes to Financial Statements

June 30, 2012

(1) Summary of Significant Accounting Policies

The City of Mount Vernon, Iowa (the City), 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-Cash Basis 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, 2012

(1) Summary of Significant Accounting Policies (continued)

B. Basis of Presentation (continued)

Nonexpendable restricted cash basis 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 cash basis 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 cash basis 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 – Cash Basis 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 or enterprise 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 Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Urban Renewal Tax Increment Fund is used to account for tax increment financing collections, the repayment of tax increment financing indebtedness and for urban renewal projects financed by tax increment financing.

CITY OF MOUNT VERNON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

(1) Summary of Significant Accounting Policies (continued)

B. Basis of Presentation (continued)

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

The 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 Fire Department Fund is used to account for development of a fire department building.

The 2009 Sanitary Sewer Fund is used to account for sewer 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, 2012

(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 City Council intends to use for specific purposes.

Unassigned - All amounts not included in the preceding 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, 2010 to compute the amounts which became liens on property on July 1, 2011. These taxes were due and payable in two installments on September 30, 2011 and March 31, 2012, at the Linn County Treasurer's Office. These taxes are recognized as income to the City when they are received from the county.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2012, 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.

CITY OF MOUNT VERNON

Notes to Financial Statements

June 30, 2012

(2) Cash and Pooled Investments (continued)

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, 2012, 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

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

Year Ending June 30,	General Obligation Bonds & Notes	
	<u>Principal</u>	<u>Interest</u>
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>
Total	<u>\$ 7,400.00</u>	<u>\$2,431,626</u>

CITY OF MOUNT VERNON

Notes to Financial Statements

June 30, 2012

(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, 2012, 2011, and 2010 were \$98,464, \$85,317 and \$78,643, respectively, equal to the required contributions for each year.

(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, 2012, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 54,650
Sick leave	<u>78,128</u>
Total	<u>\$ 132,778</u>

This liability has been computed based on rates of pay in effect at June 30, 2012.

Sick leave is payable when used or at retirement. If, at retirement, 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 \$39,000 at June 30, 2012.

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, 2012, the total per employee approximates \$52,275, \$27,609, and \$23,677, respectively.

CITY OF MOUNT VERNON

Notes to Financial Statements

June 30, 2012

(6) Meter Deposits

At June 30, 2012, the City was holding meter deposits from individuals in the amount of \$7,102.

(7) Interfund Transfers and Loans

The detail of interfund transfers for the year ended June 30, 2012 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service Fund	Urban Renewal Tax Increment Fund	\$ 652,605
	Water Fund	109,392
	Sewer Fund	219,737
General Fund	Employee Benefit Fund	217,861
	Emergency Levy Fund	28,437
	Water Fund	25,500
	Sewer Fund	<u>25,500</u>
Total		<u>\$ 1,279,032</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources. Additionally, transfers from the water and sewer funds to the general fund are for payments in lieu of taxes.

The City made an interfund loan to the Capital Projects Fund from the Local Option Sales Tax Fund of \$98,853. Additionally, the Capital Projects Fund paid the General Fund \$10,000 on a prior loan.

(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, 2012

(9) Deficit Balances

The Capital Projects Fund, the Water Fund and the Insurance Levy Fund had deficit balances of \$54,003, \$7,781, and \$22,478, respectively, at June 30, 2012. 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 \$2,909,568. Through June 30, 2012, \$2,216,405 has been paid towards these commitments.

The City has a contract for solid waste hauling that extends from July 1, 2012 through June 30, 2017. Payment amounts under the contract are dependent upon the number of City residents.

(11) Subsequent Events

Management evaluated subsequent events through January 4, 2013, the date the financial statements were available to be issued. Events or transactions occurring after June 30, 2012, but prior to January 4, 2013, that provided additional evidence about conditions that existed at June 30, 2012, have been recognized in the financial statements for the year ended June 30, 2012. Events or transactions that provided evidence about conditions that did not exist at June 30, 2012, 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, 2012.

In September 2012, the City refinanced \$570,000 of General Obligation Refunding Capital Loans to receive a more favorable interest rate. This is not a new issuance of debt.

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, 2012

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted	Net	Budgeted Amounts		Final to Net Variance
					Original	Final	
RECEIPTS:							
Property tax	\$ 1,377,296	\$ -	\$ -	\$ 1,377,296	\$ 1,354,331	\$ 1,354,331	\$ 22,965
Tax increment financing	676,858	-	-	676,858	666,102	666,102	10,756
Other city tax	648,531	-	-	648,531	2,587,261	2,587,261	(1,938,730)
Licenses and permits	72,490	-	-	72,490	58,000	58,000	14,490
Use of money and property	48,155	9,141	-	57,296	73,500	73,500	(16,204)
Intergovernmental	439,696	-	-	439,696	427,240	427,240	12,456
Charges for service	145,794	1,633,645	-	1,779,439	1,885,765	1,885,765	(106,326)
Miscellaneous	160,217	136,913	-	297,130	167,712	167,712	129,418
Total receipts	<u>3,569,037</u>	<u>1,779,699</u>	<u>-</u>	<u>5,348,736</u>	<u>7,219,911</u>	<u>7,219,911</u>	<u>(1,871,175)</u>
DISBURSEMENTS:							
Public safety	635,662	-	-	635,662	709,867	819,867	184,205
Public works	429,652	-	-	429,652	422,254	432,254	2,602
Culture and recreation	472,897	-	-	472,897	394,082	537,682	64,785
Community and economic development	69,388	-	-	69,388	64,023	75,023	5,635
General government	485,011	-	-	485,011	454,066	505,066	20,055
Debt service	1,120,761	-	-	1,120,761	1,121,388	1,121,388	627
Capital projects	3,708,097	-	-	3,708,097	6,618,175	6,318,175	2,610,078
Business type activities	-	1,365,978	-	1,365,978	1,637,182	1,852,182	486,204
Total disbursements	<u>6,921,468</u>	<u>1,365,978</u>	<u>-</u>	<u>8,287,446</u>	<u>11,421,037</u>	<u>11,661,637</u>	<u>3,374,191</u>
Excess (deficiency) of receipts over (under) disbursements	(3,352,431)	413,721	-	(2,938,710)	(4,201,126)	(4,441,726)	1,503,016
OTHER FINANCING SOURCES (USES), NET	<u>380,129</u>	<u>(380,129)</u>	<u>-</u>	<u>-</u>	<u>3,438,175</u>	<u>3,238,175</u>	<u>(3,238,175)</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(2,972,302)	33,592	-	(2,938,710)	(762,951)	(1,203,551)	(1,735,159)
BALANCES, BEGINNING OF YEAR	<u>6,522,446</u>	<u>451,765</u>	<u>-</u>	<u>6,974,211</u>	<u>6,958,742</u>	<u>6,958,742</u>	<u>15,469</u>
BALANCES, END OF YEAR	<u>\$ 3,550,144</u>	<u>\$ 485,357</u>	<u>\$ -</u>	<u>\$ 4,035,501</u>	<u>\$ 6,195,791</u>	<u>\$ 5,755,191</u>	<u>\$ (1,719,690)</u>

See accompanying independent auditors' report.

CITY OF MOUNT VERNON

Notes to Required Supplementary Information - Budgetary Reporting

June 30, 2012

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 \$0 and disbursements by \$240,600. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2012, disbursements exceeded budgeted amounts in the culture and recreation function, Community and Economic Development, and business type activities, 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, 2012

	Special Revenue				Capital Projects			Permanent	Total
	Insurance Levy	Employee Benefits	Emergency Levy	Low-Moderate Income	2007/2010 Street Improvement	2006/2009 Water Improvement	Capital Projects	Cemetery Perpetual Care	
Receipts:									
Property tax	\$ 100,675	\$ 219,214	\$ 28,613	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 348,502
Use of money and property	-	-	-	-	27	1,494	-	-	1,521
Miscellaneous	-	-	-	-	-	-	-	990	990
Total receipts	<u>100,675</u>	<u>219,214</u>	<u>28,613</u>	<u>-</u>	<u>27</u>	<u>1,494</u>	<u>-</u>	<u>990</u>	<u>351,013</u>
Disbursements:									
Operating:									
General government	120,471	-	-	-	-	-	-	-	120,471
Capital projects	-	-	-	-	107,027	563,705	85,411	-	756,143
Total disbursements	<u>120,471</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>107,027</u>	<u>563,705</u>	<u>85,411</u>	<u>-</u>	<u>876,614</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(19,796)</u>	<u>219,214</u>	<u>28,613</u>	<u>-</u>	<u>(107,000)</u>	<u>(562,211)</u>	<u>(85,411)</u>	<u>990</u>	<u>(525,601)</u>
Other financing sources (uses):									
Transfers in	-	-	-	-	-	-	-	-	-
Transfers out	-	(217,861)	(28,437)	-	-	-	-	-	(246,298)
Interfund loans made	-	-	-	-	-	-	98,853	-	98,853
Interfund loans paid	-	-	-	-	-	-	(10,000)	-	(10,000)
Total other financing sources (uses)	<u>-</u>	<u>(217,861)</u>	<u>(28,437)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>88,853</u>	<u>-</u>	<u>(157,445)</u>
Net change in cash balances	(19,796)	1,353	176	-	(107,000)	(562,211)	3,442	990	(683,046)
Cash balances, beginning of year	<u>(2,682)</u>	<u>1,793</u>	<u>233</u>	<u>10,537</u>	<u>107,000</u>	<u>782,379</u>	<u>(57,445)</u>	<u>79,585</u>	<u>921,400</u>
Cash balances, end of year	<u>\$ (22,478)</u>	<u>\$ 3,146</u>	<u>\$ 409</u>	<u>\$ 10,537</u>	<u>\$ -</u>	<u>\$ 220,168</u>	<u>\$ (54,003)</u>	<u>\$ 80,575</u>	<u>\$ 238,354</u>
Cash Basis Fund Balances									
Nonspendable - cemetery perpetual care	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 80,575	\$ 80,575
Restricted for:									
Other	-	3,146	409	10,537	-	-	-	-	14,092
Assigned for:									
Water improvements	-	-	-	-	-	220,168	-	-	220,168
Unassigned	<u>(22,478)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(54,003)</u>	<u>-</u>	<u>(76,481)</u>
Total cash basis fund balances	<u>\$ (22,478)</u>	<u>\$ 3,146</u>	<u>\$ 409</u>	<u>\$ 10,537</u>	<u>\$ -</u>	<u>\$ 220,168</u>	<u>\$ (54,003)</u>	<u>\$ 80,575</u>	<u>\$ 238,354</u>

See accompanying independent auditors' report.

CITY OF MOUNT VERNON
Schedule of Indebtedness
Year ended June 30, 2012

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
General obligation bonds and capital loan notes:									
2006 Water improvements	Apr. 1, 2006	3.63-3.90%	\$ 1,225,000	\$ 670,000	\$ -	\$ 125,000	\$ 545,000	\$ 25,550	\$ -
2007 Capital improvements	May. 1, 2007	4.00%	4,410,000	3,185,000	-	325,000	2,860,000	127,400	-
2008 Capital improvements	Nov. 17, 2008	2.95-3.30%	385,000	80,000	-	80,000	-	2,640	-
2009A Sewer improvements	Jul. 1, 2009	2.00-3.75%	400,000	320,000	-	40,000	280,000	10,263	-
2009B Sewer/water improvements	Sep. 22, 2009	1.50-5.90%	3,500,000	3,365,000	-	135,000	3,230,000	162,890	-
2010A Fire station construction	Oct. 19, 2010	.90-2.85%	400,000	400,000	-	40,000	360,000	7,702	-
2010B Land purchase	Dec. 1, 2010	.46-1.81%	160,000	160,000	-	35,000	125,000	1,741	-
Total				<u>\$ 8,180,000</u>	<u>\$ -</u>	<u>\$ 780,000</u>	<u>\$ 7,400,000</u>	<u>\$ 338,186</u>	<u>\$ -</u>

See accompanying independent auditors' reports.

CITY OF MOUNT VERNON
Bond and Note Maturities
June 30, 2012

General Obligation Bonds and Capital Loan Notes							
Year ending June 30,	2006 Water Improvements		2007 Capital Improvements		2009A Sewer Improvements		Total
	Issued April 1, 2006		Issued May 1, 2007		Issued July 1, 2009		
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
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	
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	-	-	
2022	-	-	4.00%	225,000	-	-	
2023	-	-	-	-	-	-	
2024	-	-	-	-	-	-	
2025	-	-	-	-	-	-	
2026	-	-	-	-	-	-	
2027	-	-	-	-	-	-	
2028	-	-	-	-	-	-	
2029	-	-	-	-	-	-	
		<u>\$ 405,000</u>		<u>\$ 2,280,000</u>		<u>\$ 235,000</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	
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	790,000
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
2020	5.00%	175,000	2.85%	50,000	-	-	435,000
2021	5.00%	180,000	-	-	-	-	405,000
2023	5.25%	195,000	-	-	-	-	195,000
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>\$ 2,660,000</u>		<u>\$ 310,000</u>		<u>\$ 125,000</u>	<u>\$ 6,390,000</u>

See accompanying independent auditors' report.

CITY OF MOUNT VERNON
Schedule of Receipts by Source and Disbursements by Function -
All Governmental Funds
For the Last Eight Years

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Receipts:								
Property tax	\$ 1,377,296	\$ 1,235,073	\$ 1,155,472	\$ 1,025,006	\$ 1,142,527	\$ 991,801	\$ 854,772	\$ 876,918
Tax increment financing collections	676,858	812,338	759,471	899,722	333,708	595,021	739,361	613,934
Other city tax	648,531	614,939	609,832	126,127	74,599	103,758	560,300	518,229
Licenses and permits	72,490	71,759	58,929	84,542	69,276	57,439	90,086	72,072
Use of money and property	48,155	62,742	57,413	54,388	89,050	102,637	43,350	29,333
Intergovernmental	439,696	428,944	404,529	369,307	367,161	355,094	342,940	333,602
Charges for service	145,794	135,642	119,055	95,746	120,979	107,965	113,589	93,816
Miscellaneous	160,217	168,948	102,730	81,604	108,347	71,189	84,446	117,918
Total	<u>\$ 3,569,037</u>	<u>\$ 3,530,385</u>	<u>\$ 3,267,431</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	\$ 635,662	\$ 727,507	\$ 632,578	\$ 647,294	\$ 576,270	\$ 548,890	\$ 528,275	\$ 518,300
Public works	429,652	336,272	392,934	379,826	330,170	264,064	380,354	363,862
Culture and recreation	472,897	418,667	358,976	325,455	294,977	284,887	269,225	310,357
Community and economic development	69,388	52,829	67,948	69,516	77,194	54,270	38,541	21,715
General government	485,011	414,880	372,293	363,621	288,571	270,390	265,636	265,671
Debt service	1,120,761	1,145,441	1,595,321	602,659	728,040	2,366,083	511,753	518,900
Capital projects	3,708,097	1,276,918	1,085,228	2,110,990	1,098,329	508,431	568,756	316,288
Total	<u>\$ 6,921,468</u>	<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>

See accompanying independent auditors' report.



CliftonLarsonAllen

Independent Auditors' 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, (the City) as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents, and have issued our report thereon dated January 4, 2013. 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

Management of the City is responsible for establishing and maintaining effective 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.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described in Part II of the accompanying schedule of findings and responses as item II-A-12 to be a significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 January 4, 2013.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2012 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 finding identified in our audit is 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 response and, accordingly, we express no opinion on it.

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.

CliftonLarsonAllen LLP

Cedar Rapids, Iowa
January 4, 2013

CITY OF MOUNT VERNON

Schedule of Findings and Responses

Year ended June 30, 2012

Part I: SUMMARY OF THE INDEPENDENT AUDITORS' 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 in internal control over financial reporting was 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 DEFICIENCY:

II-A-12: Lack of 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. The city clerk has the ability to set up vendors, and write and sign checks. Though disbursements are reviewed, there is a lack of controls to ensure that all disbursements are reviewed. There is no review of adjusting journal entries. Utility adjustments and write offs can be performed by all accounting staff. There is no review over the processing of pay rates in the payroll system. In addition, there are no controls to ensure that pay rates are not inappropriately modified during the year. Even though time cards are approved, there should be secondary review controls in place to ensure that hours entered into the payroll register agree with the time cards.

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.

CITY OF MOUNT VERNON

Schedule of Findings and Responses

Year ended June 30, 2012

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

INTERNAL CONTROL DEFICIENCY: (CONTINUED)

II-A-12: Lack of Segregation of Duties (continued)

Recommendation:

We recommend that tasks performed by accounting be evaluated so that proper segregation of duties can be established. We suggest that the city clerk not have the ability to prepare checks while at the same time be able to sign checks. Someone other than the preparer of the check voucher, should review & approve the coding of checks. In addition, there should be controls implemented to ensure completeness that all checks are being reviewed. Since utility write-offs can be performed by all accounting staff, we suggest that a review of adjustments be performed by the City Administrator. In regards to the processing of payroll, we suggest that pay rate changes be independently reviewed after being entered into the system. In addition we suggest that controls be put into place to ensure that pay rates are not inappropriately modified during the year. There should be secondary review controls in place to ensure that hours entered onto the payroll register agree with the actual time cards. Individual pay rate/salary reports should be created and maintained in personnel files for all employees.

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.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

CITY OF MOUNT VERNON

Schedule of Findings and Responses

Year ended June 30, 2012

PART III: OTHER FINDINGS RELATED TO REQUIRED STATUTORY REPORTING:

III-A-12 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-12 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-12 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

III-D-12 Business Transactions - No business transactions between the City and City officials or employees were noted.

III-E-12 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-12 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

III-G-12 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, 2012

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

III-H-12 Financial Condition - The Capital Projects Fund, the Water Fund and the Insurance Levy Fund had deficit balances at June 30, 2012 of \$54,003, \$7,781 and \$22,478, 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.



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January 4, 2013

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

We have completed our audit of the City of Mount Vernon, Iowa financial statements as of and for the year ended June 30, 2012, and have issued our report dated January 4, 2013. 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.

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.

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 these specified parties.

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