

CITY OF MOUNT VERNON, IOWA

INDEPENDENT AUDITORS' REPORTS
BASIC FINANCIAL STATEMENTS
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2015

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CITY OF MOUNT VERNON

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
James Moore	Mayor	December 31, 2015
Eric S. Roudabush	Council Member	December 31, 2017
Marianne Taylor	Council Member	December 31, 2015
Francesca Thompson	Council Member	December 31, 2015
Jamie Hampton	Council Member	December 31, 2015
Bill Niemi	Council Member	December 31, 2017
Michael R. Beimer	City Administrator	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

Report on the Financial Statements

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, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1.C. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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

Opinions

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, 2015, and the respective changes in cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.C.

Basis of Accounting

As described in Note 1.C., these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Emphasis of a Matter

As disclosed in Note 4 to the financial statements, the City of Mount Vernon, Iowa, adopted new accounting guidance related to Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*. Our opinions are not modified with respect to this matter.

Other Matters

Supplementary and Other Information

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. The supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information, as listed in the table of contents, is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

We also have previously audited, in accordance with auditing standards generally accepted in the United States of America, the City of Mount Vernon, Iowa's financial statements for the nine years ended June 30, 2014, which are not presented with the accompanying financial statements and we expressed unmodified opinions on the respective financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information. Those audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Mount Vernon, Iowa's basic financial statements as a whole. The supplementary information included in Schedule 4 for the nine years ended June 30, 2014 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements for those nine years ended June 30, 2014. Such 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 basic financial

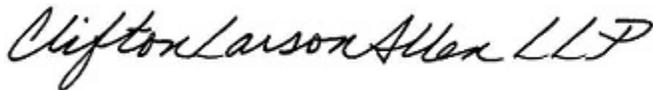
To the Honorable Mayor and
Members of the City Council
City of Mount Vernon, Iowa

statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the nine years ended June 30, 2014 presented in Schedule 4 is fairly stated, in all material respects, in relation to the basic financial statements from which they have been derived.

The other information, which consists of Management's Discussion and Analysis, the budgetary comparison information, the Schedule of the City's Proportionate Share of the Net Pension Liability, and the Schedule of City Contributions, as listed in the table of contents, has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 14, 2016, on our consideration of the City of Mount Vernon, Iowa's internal control over financial reporting and on 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 result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Mount Vernon, Iowa's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Cedar Rapids, Iowa
January 14, 2016

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, 2015. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2015 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased 2.13%, from \$6,597,583 (including net bond proceeds of \$1,171,200) to \$6,737,857 (including net bond proceeds of \$2,783,700), from fiscal year 2014 to fiscal year 2015. The first local option sales tax (LOSST-1) was passed in 2001 and again for 2003 and 2004 to allow for an extra 1 cent collection. Total of LOSST-1 and LOSST-2 funds accumulated as of June 30, 2015, amounts to \$986,026. The revenues received from LOSST-1 receipts are designated for the construction of a new fire station and a new community center. The second local option sales tax (LOSST-2) passed in 2009 is dedicated for infrastructure-related projects. A percentage formula 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. 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. As of the date of this writing, there remains approximately \$320,000 of unencumbered dollars set aside for the proposed community center. This represents the cash balance less invoices to be paid for services already rendered. 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 LOSST-1 fund (fire station/community center) balance standing at \$413,769 as of June 30, 2015, and the LOSST-2 fund standing at \$572,257, for a cumulative total of \$986,026 as of June 30, 2015. A third local option sales tax was passed (LOSST-3) which will run for 20 years, with a start date of July 1, 2014. LOSST-3 funds accumulated as of June 30, 2015, totaled \$441,292.
- Disbursements for governmental activities decreased 26.2%, from \$6,262,481 to \$4,621,953 from fiscal year 2014 to fiscal year 2015. Public safety, public works, general government and debt service disbursements increased \$19,275, \$136,713, \$16,199 and \$146,175, respectively. Culture and recreation, community and economic development and capital projects disbursements decreased \$21,166, \$14,455 and \$1,923,269, respectively.
- The City's total cash basis net position increased from \$4,343,958 to \$7,145,044, from June 30, 2014 to June 30, 2015. This change was a result of an increase in the governmental activities net position of \$2,455,363 plus an increase in the net position for business type activities of \$345,723.
- 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 "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 required automatic funding reductions in the event Congress failed 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 failed to pass such legislation; subsequently, the funding reductions did 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 are affected due to the automatic funding reductions. 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. 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 was implemented 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 projected that by the end of calendar year 2014, the water utility would 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 holding its own on revenues versus expenditures and this utility will be monitored regarding any rate increases in that utility. The storm water utility user rates were adjusted as of July 1, 2013 (FY14), as there was a need to modify certain aspects of the existing ordinance. Most users experienced an increase in the rates, with residential charges going from \$1.50 per ERU (equivalent residential unit) to \$3.00 each per month, with the one exception of Cornell College which was initially set at \$2.25 per ERU for one year and then going to \$3.00 per ERU on July 1, 2014. Storm water utility rates had not increased since the inception of the ordinance approximately 10 years ago and, increasingly, there are storm water projects that need to be funded. Due to future needed repairs to the storm water system, it is anticipated that in the very near future rates will need to be adjusted again to pay for the necessary repairs, construction, and reconstruction.

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 Cash Basis Statement of Activities and Net Position. 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 and the City's proportionate share of the net pension liability and related contributions.

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 Cash Basis Statement of Activities and Net Position reports information which helps answer this question.

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

The Cash Basis Statement of Activities and Net Position 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, road use tax receipts, and other 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 Funds 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 position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, from \$3,334,617 to \$5,789,980. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

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

	Year Ended June 30,	
	2015	2014
Receipts:		
Program receipts		
Charges for service	\$ 280	\$ 224
Operating grants, contributions, and restricted interest	545	523
Capital grants, contributions, and restricted interest	20	1,643
General receipts		
Property tax	2,401	2,232
Local option sales tax	562	554
Hotel/motel tax	69	64
Grants and contributions not restricted to specific purposes	6	6
Unrestricted interest on investments	8	7
Other general receipts	63	174
Net bond proceeds	2,784	1,171
Total receipts	6,738	6,598
Disbursements:		
Public safety	746	727
Public works	649	512
Culture and recreation	458	479
Community and economic development	75	89
General government	455	439
Debt service	1,179	1,033
Capital projects	1,060	2,983
Total disbursements	4,622	6,262
Change in cash basis net position before transfers	2,116	336
Transfers, net	339	319
Change in cash basis net position	2,455	655
Cash basis net position, beginning of year	3,335	2,680
Cash basis net position, end of year	\$ 5,790	\$ 3,335

The City's total receipts for governmental activities increased 2.1%, or \$140,274. Current year receipts included \$2,783,700 of bond proceeds, compared to \$1,171,200 in the prior year. The total cost of all governmental programs and services decreased by \$1,640,528, or 26.2%, with no new programs added this year. The most significant decrease relates to capital projects, which decreased \$1,923,269.

The City property tax rate for FY15 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 25 years. (Note: The capital equipment levy was placed and approved on the November 2015 ballot for voters to approve another 10-year extension of this levy. This was the 3rd 10-year cycle of this ballot initiative.) The property tax levy rate for fiscal year 2014 remained at the same rate of 12.99%; the same rate was applied for FY15. 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 reassessed with calculations by an independent appraiser (Vanguard Appraisals) increasing this classification.) The overall increase was 9.78%; some properties showed a decrease, some were neutral, and some had an increase. The same process was applied to residential properties for FY14 for taxable valuations.

The cost of all governmental activities this year was \$4,621,953, compared to \$6,262,481 last year. However, as shown in the Cash Basis Statement of Activities and Net Position on page 23, the amount taxpayers ultimately financed for these activities was \$3,777,097 because some of the cost was paid by those who directly benefited from the programs (charges for service \$279,956) or by other governments and organizations which subsidized certain programs with grants and contributions of \$564,900. Overall, the City's governmental activities program receipts, including intergovernmental aid and fees for service, decreased in fiscal year 2015 from \$2,389,659 to \$844,856.

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

	Year Ended June 30,	
	<u>2015</u>	<u>2014</u>
Receipts:		
Program receipts		
Charges for service		
Water	\$ 656	\$ 649
Sewer	783	787
Solid waste	294	302
Storm water	76	76
General receipts		
Intergovernmental	30	-
Unrestricted interest on investments	5	5
Other general receipts	155	143
	1,999	1,962
Total receipts		
Disbursements:		
Water	403	441
Sewer	468	488
Solid waste	342	352
Storm sewer	101	93
	1,314	1,374
Total disbursements		
Change in cash basis net position before transfers	685	588
Tranfers, net	(339)	(319)
Change in cash basis net position	346	269
Cash basis net position, beginning of year	1,009	740
Cash basis net position, end of year	\$ 1,355	\$ 1,009

Total business type activities receipts for the fiscal year were \$1,998,822 compared to \$1,962,024 last year. The cash balance increased \$345,723 from the prior year. Total disbursements for the fiscal year decreased 4.4%, to a total of \$1,313,640.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As Mount Vernon completed the year, its governmental funds reported a combined fund balance of \$5,789,980, an increase of \$2,455,363 from last year's total of \$3,334,617. 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 \$310,458 from the prior year to \$1,101,125.
- The Special Revenue, Road Use Tax Fund cash balance decreased \$153,822 to \$(52,733) as the City expended in excess of its current year road use tax allocation on streets, sidewalks and other street-related projects.
- 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 \$505,433, an increase of \$18,200 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 2006 amendment included a mandatory sunset of 20 years. The Urban Renewal District was amended in 2013 and again in 2014. The 2014 amendment was specific for municipal pool improvements, while the 2013 amendment was specific to a number of capital improvement projects, mainly those centered on use of parks, trails and other amenities. Barring any new methodology of utilizing TIF in the future, this 20 year cycle is set to expire in FY 26-27. The primary reason in doing so 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 and current and future Iowa Code permitted usage, 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 Urban Renewal Plan, as noted, has been amended twice: once in 2013 and again in 2014 and included in the amendments was the addition of the verbiage of the "not to exceed cost" is estimated for each project. It should be mentioned that the Urban Renewal Plan should closely track, to the degree possible, the Strategic Plan, and each will be reviewed annually for conformance and prioritization as needs occur and funds become available.
- The Special Revenue, Local Option Sales Tax Fund cash balance decreased \$182,132 during the fiscal year. The City has been using these funds for infrastructure-related projects. As noted earlier, this LOSST-2 portion expired in June 2014, with the LOSST-3 fund starting in July 2014. The purpose of the LOSST-3 funding was resolved to be split as follows: 55% for streets related infrastructure, 25% for a new community center, 10% for downtown street-scaping projects, and 10% for trails related projects.

- The Debt Service Fund cash balance of \$(119,439) is a decrease of \$93,632 over the prior year balance of \$(25,807). This balance was factored into the FY15 operating budget to further reduce the deficit that had existed 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 was posted to the water utility.
- The Capital Projects, 2009 Sanitary Sewer Fund cash balance decreased \$64,752 to \$357,339, due to the expenditure of funds on sewer projects.
- The Capital Projects, LOST III Capital Projects Fund, which was established in this fiscal year, had an excess of receipts over disbursements and a cash balance of \$441,292, due to local option sales tax collections.
- The Capital Projects, 2014 Street Improvements Fund, which was also established in this fiscal year, had an excess of receipts over disbursements and a cash balance of \$2,054,669. Receipts included \$2,583,700 of bond proceeds.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Enterprise, Water Fund cash balance increased \$202,781 to \$506,555. This is similar to the prior fiscal year results, which were up primarily due to an increase in water rates and a decrease in the amount transferred out of the fund.
- The Enterprise, Sewer Fund cash balance increased \$77,838 to \$489,823. This is similar to the prior fiscal year results, which were up primarily due to an increase in sewer rates and a decrease in program expenditures.
- The Enterprise, Solid Waste Fund cash balance increased \$90,636 to \$418,639. This is similar to the prior fiscal year results, which were up primarily due to an increase in rates and a decrease in program expenditures. The City re-negotiated a 5-year contract with Wapsi Waste Services prior to the contract expiration date of June 30, 2012. 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. These 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. The amendment was approved on May 18, 2015, and resulted in an increase in budgeted revenues and other financing sources of \$100,000 and a decrease of \$55,000 of budgeted expenditures.

The City's receipts and other financing sources were \$970,908 more than budgeted. Total disbursements were \$1,893,927 less than the amended budget. Disbursements for the public safety, public works, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities functions were \$215,700, \$33,801, \$61,363, \$64,293, \$110,951, \$10,208, \$1,015,535 and \$382,076, respectively, less than the amended budget.

The City did not exceed the amounts budgeted in any function for the year ended June 30, 2015.

DEBT ADMINISTRATION

At June 30, 2015, the City had \$9,030,000 in general obligation bonds and capital loan notes, compared to \$7,175,000 last year. Debt increased as a result of issuing \$2,700,000 of general obligation bonds sold as capital loan notes. The proceeds will be used for street improvements (\$2,500,000) and the rehabilitation of the City's swimming pool (\$200,000).

The City does now carry a general obligation bond rating assigned by the national rating agency Standard and Poors of an "AA-" rating, which is extremely good for a city of our size. This was evidenced by the \$2.7 million dollar G.O. Bond sale at the start of FY15, involving seven bidders and a very good rate based on the City's new rating by Standard and Poors. It also sold the bonds to the buyer with no buyer's discount, with the buyer paying a premium of \$83,700 to purchase the new bonds. 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 \$9,030,000 is below its constitutional debt limit of \$12,263,173 as of June 30, 2015.

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 2015 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. The Fed is anticipated to increase its prime rate by .25% late this fall, which will impact 30-year home mortgages somewhat; however, as consumer confidence rises and the overall economy improves and nationally, the jobless rate is anticipated to dip to 5.1% by year's end (currently at 5.3% as of September 14, 2015), banks will probably be easing their down-payment restrictions and issuing more loans. The only factor keeping a rebound in housing construction from occurring is the current unavailability of land to build on. 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. This is 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 was 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. Some economic pundits are predicting a "correction" in the market is long overdue. Currently, the market is very volatile and is experiencing a roller-coaster ride from its previous highs. Building permits issued for new housing construction had been averaging approximately 28 per year; however, all of the available lots in the newer subdivision are now sold or built upon, further necessitating administration to work with developers holding land so that the need for available lots can be fulfilled. It is anticipated that Mount Vernon area developers will be working with the City on new development opportunities in late 2015 or early 2016 to fill this need. 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 2013-2014 due to external expenses of which the City had little control over. This trend is expected to continue, however, with the recent glut in the market of oil and prices continuing to slide to \$40 per barrel and possibly lower, it is quite possible that soon the price per gallon of gas will be \$2.00 per less, absent geo-political or natural factors affecting the prices of crude.

Therefore, it is still possible that all energy costs will continue to rise in 2015-2016, 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 2015-2016 and beyond during this slow recovery. 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 are not as volatile as mortgage lenders ease restrictions on lending standards, however, builders have yet to fully correct the mismatch between housing demand and supply.

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, a slower than anticipated recovery and market liquidity, and the roller-coaster ride of the equity market, with some pundits predicting a "correction" in the near future.

Another concern is the upward spiraling of premiums for health care and especially workers compensation premiums. The workers compensation premiums are anticipated to rise significantly due to the frequency and the amount of recent claims over the past year.

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 2015

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 2015. Amounts available for appropriation in the operating budget increased over the 2014 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 the previous 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, led 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 needed 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 that 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 was the ultimate creation of a roundabout at the intersection of Highway 30 and Highway One corridor and also at the intersection at 10th Avenue and Highway 30. Construction was completed in late November 2013, with final grading, seeding and amenities outside of the contract completed in the fall of 2014. The projects will be considered complete and retainages released upon the completion of a final audit, which is currently underway. The City intends to apply for any grants that may become available. The City added no major new programs to the 2014 budget, however, new initiatives discussed to be implemented in further

budgets include a new community center, community visioning projects (such as trails and park related projects), uptown main street and street-scaping funds, and replacement of city sidewalks and streets. As the funding becomes available through LOSST-3, commencing July 1, 2014, 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 Group (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 2015 and 2016, 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. Additionally, the City annually budgets \$15,000 to help offset the salary of the Director of the CDG, who represents both the City of Mount Vernon and the City of Lisbon.

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 for that 5-year time frame were that the City should receive approximately \$2.5 million dollars, or \$500,000 per year, until April, 2014, when LOSST expires. In July 2014, LOSST-3 will commence for a period of 20 years. The money collected for LOSST-2 was 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. At the time of this writing, the City of Cedar Rapids has previously approved an initiative for a 10 year LOSST, and it is anticipated that at the expiration of said 10-year Cedar Rapids LOSST, they will place the initiative on the ballot again for another 10-year period. It is estimated by this writer that the City of Mount Vernon will receive an estimated minimum of \$500,000 per year. The LOSST revenues, by Ballot Resolution, are to be used to pay for the following categories and percentages: streets/sidewalks related: 55%; community center: 25%; trails: 10%; and street-scaping: 10%.

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 2013 through 2016 are as follows:

<u>Property Classification</u>	<u>FY 2016</u>	<u>FY 2015</u>	<u>FY 2014</u>	<u>FY 2013</u>
Residential	55.7335%	54.4002%	52.8166%	50.7518%
Commercial	90%	95%	100%	100%
Agricultural	44.7021%	43.3997%	57.5411%	57.5411%
Industrial	90%	95%	100%	100%
Railroad	90%	95%		

**Multi-Residential (new classification beginning assessment year 2015, January 1, 2015), will be 82.5% in FY 2016 and 78.75 in FY 2017. This new classification will be on an 8-year rollback schedule, with no backfill. Assessors may have classification decisions on mixed-use buildings. In the Mount Vernon downtown district, this would apply, but generally speaking, there are few such classifications (if any) outside the commercial buildings in the downtown district with the upstairs of said property being rented out for residential usage.

While the property tax rollback system remains in place, several major changes were made by the legislature. For each assessment year that began in 2013, residential and agricultural growth are now capped at 3% (as opposed to what used to be 4%) or whichever is lowest between the two classes. Commercial, industrial, and railroad property now have their own rollback, which is 90% for valuations established during the 2013 assessment year. For valuations established during or after the assessment year beginning January 1, 2014, commercial, industrial, and railroad property remain at 100%. Thereafter, in FY 2015 these classes were taxed at 95% and in FY 2016 will be taxed at 90%.

The legislature created a standing appropriation, beginning in FY15, to reimburse local governments for the property tax reductions resulting from the new rollback for commercial and industrial property (not for railroad reductions). Prior to FY2018, the appropriation is a standing unlimited appropriation, but beginning in FY2018, the standing annual appropriation will be capped at the FY2017 amount. As a result of the FY2017 cap, cities will likely see an increasing rollback for commercial and industrial properties as their values grow over time.

A new property class was established for multi-residential property, which includes mobile home parks, manufactured home communities, land-leased communities, assisted living facilities, and property primarily used or intended for human habitation containing three or more separate living quarters. Additionally, for buildings that are not now otherwise classified as residential property, that portion of the building that is used or intended for human habitation can be classified as a multi-residential property, even if human habitation is not the primary use of the building and regardless of the number of dwelling units located in the building. The rollback percentages will be phased in over a period of eight years, beginning in assessment year 2017. *It should be noted that there is NO backfill provision for this class.*

The residential classification for roll-back for FY15, as shown in the preceding chart, increased to 54.4002%, commercial and industrial decreased to 95% and agriculture decreased to 43.3997% (of which the City has little land in this classification in its corporate limits).

Legislature (S.F. #295) was passed in the 2013 session of the Iowa Legislature for commercial property tax reform, primarily aimed at reducing the percentage charged to commercial and industrial property classifications, small and Main Street businesses as well as a tax break for income taxpayers. A new residential classification was created for businesses with their upper levels being occupied by apartments (as opposed to the entire building being classified as commercial). As to the legislation previously enacted, the effect and percentage of taxable value by class took effect in FY15. As time goes on, management is predicting the State's change in the reduction in rollback for commercial and utilities will place a bit more pressure on other classes of property. For cities with lower commercial value the impact on the city budget may not be noticeable, but the overall school and county budgets could apply some pressure towards residential classes. The State's proposal is to back-fill cities' losses for 3 to 5 years, but this writer is uncertain that the State will be able to afford it long term. For the City of Mount Vernon, currently approximately 67% of taxable value is residential and the remaining 33% are utilities and commercial. With the sweeping changes to the property tax system, it may be challenging for any city to accurately forecast how their budgets will be affected.

The January 1, 2013 property tax valuation serves as the basis for calculating property taxes for 2015. 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 (now 3%) 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 have been completed 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, or Sue Ripke, Assistant City Administrator/City Clerk, at 213 First Street West, Mount Vernon, Iowa.

Respectfully Submitted, Michael R. Beimer, City Administrator

January 14, 2016

BASIC FINANCIAL STATEMENTS

CITY OF MOUNT VERNON
Cash Basis Statement of Activities and Net Position
As of and for the year ended June 30, 2015

	Disbursements	Program Receipts		
		Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 745,901	\$ 26,230	\$ 15,444	\$ -
Public works	649,072	-	475,075	-
Culture and recreation	457,920	151,681	5,600	-
Community and economic development	74,607	-	-	-
General government	455,118	102,045	-	-
Debt service	1,179,073	-	49,252	-
Capital projects	1,060,262	-	-	19,529
Total governmental activities	<u>4,621,953</u>	<u>279,956</u>	<u>545,371</u>	<u>19,529</u>
Business type activities:				
Storm water	101,048	75,516	-	-
Water	402,553	655,693	-	15,269
Sewer	467,564	783,025	-	15,269
Solid waste	342,475	293,948	-	-
Total business type activities	<u>1,313,640</u>	<u>1,808,182</u>	<u>-</u>	<u>30,538</u>
Total	<u>\$ 5,935,593</u>	<u>\$ 2,088,138</u>	<u>\$ 545,371</u>	<u>\$ 50,067</u>

General Receipts and Transfers:

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

CHANGE IN CASH BASIS NET POSITION
CASH BASIS NET POSITION, BEGINNING OF YEAR
CASH BASIS NET POSITION, END OF YEAR

CASH BASIS NET POSITION

Restricted:
Nonexpendable:
Cemetery perpetual care
Expendable:
Urban renewal purposes
Other purposes
Unrestricted

TOTAL CASH BASIS NET POSITION

Exhibit A

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

Governmental Activities	Business Type Activities	Total
\$ (704,227)	\$ -	\$ (704,227)
(173,997)	-	(173,997)
(300,639)	-	(300,639)
(74,607)	-	(74,607)
(353,073)	-	(353,073)
(1,129,821)	-	(1,129,821)
(1,040,733)	-	(1,040,733)
<u>(3,777,097)</u>	<u>-</u>	<u>(3,777,097)</u>
-	(25,532)	(25,532)
-	268,409	268,409
-	330,730	330,730
-	(48,527)	(48,527)
-	<u>525,080</u>	<u>525,080</u>
<u>(3,777,097)</u>	<u>525,080</u>	<u>(3,252,017)</u>
1,666,416	-	1,666,416
734,244	-	734,244
561,578	-	561,578
68,522	-	68,522
6,540	-	6,540
8,558	5,019	13,577
2,700,000	-	2,700,000
83,700	-	83,700
63,443	155,083	218,526
339,459	(339,459)	-
<u>6,232,460</u>	<u>(179,357)</u>	<u>6,053,103</u>
2,455,363	345,723	2,801,086
<u>3,334,617</u>	<u>1,009,341</u>	<u>4,343,958</u>
<u>\$ 5,789,980</u>	<u>\$ 1,355,064</u>	<u>\$ 7,145,044</u>
\$ 86,255	\$ -	\$ 86,255
505,433	-	505,433
3,522,370	-	3,522,370
<u>1,675,922</u>	<u>1,355,064</u>	<u>3,030,986</u>
<u>\$ 5,789,980</u>	<u>\$ 1,355,064</u>	<u>\$ 7,145,044</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, 2015

	Special Revenue					Capital Projects				
	General	Road Use Tax	Urban Renewal Tax Increment	Local Option Sales Tax	Debt Service	2009 Sanitary Sewer	LOST III Capital Projects	2014 Street Improvements	Nonmajor	Total
RECEIPTS:										
Property tax	\$ 1,074,656	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 589,038	\$ 1,663,694
Tax increment financing	-	-	734,244	-	-	-	-	-	-	734,244
Other city tax	71,245	-	-	68,212	-	-	493,366	-	-	632,823
Licenses and permits	52,919	-	-	-	-	-	-	-	-	52,919
Use of money and property	70,600	-	895	2,752	-	1,592	-	-	-	75,839
Intergovernmental	27,584	490,344	-	-	49,252	-	-	-	4,260	571,440
Charges for service	159,756	-	-	-	-	-	-	-	-	159,756
Miscellaneous	57,097	4,906	-	-	-	-	-	-	1,439	63,442
Total receipts	<u>1,513,857</u>	<u>495,250</u>	<u>735,139</u>	<u>70,964</u>	<u>49,252</u>	<u>1,592</u>	<u>493,366</u>	<u>-</u>	<u>594,737</u>	<u>3,954,157</u>
DISBURSEMENTS:										
Operating:										
Public safety	745,901	-	-	-	-	-	-	-	-	745,901
Public works	-	649,072	-	-	-	-	-	-	-	649,072
Culture and recreation	457,920	-	-	-	-	-	-	-	-	457,920
Community and economic development	74,607	-	-	-	-	-	-	-	-	74,607
General government	329,096	-	-	-	-	-	-	-	126,022	455,118
Debt service	-	-	-	-	1,179,073	-	-	-	-	1,179,073
Capital projects	-	-	-	212,305	-	66,344	52,074	529,031	200,508	1,060,262
Total disbursements	<u>1,607,524</u>	<u>649,072</u>	<u>-</u>	<u>212,305</u>	<u>1,179,073</u>	<u>66,344</u>	<u>52,074</u>	<u>529,031</u>	<u>326,530</u>	<u>4,621,953</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(93,667)</u>	<u>(153,822)</u>	<u>735,139</u>	<u>(141,341)</u>	<u>(1,129,821)</u>	<u>(64,752)</u>	<u>441,292</u>	<u>(529,031)</u>	<u>268,207</u>	<u>(667,796)</u>
OTHER FINANCING SOURCES (USES):										
Bond proceeds	-	-	-	-	-	-	2,500,000	200,000	-	2,700,000
Bond premium	-	-	-	-	-	-	83,700	-	-	83,700
Transfers in	404,125	-	-	-	1,036,189	-	-	10,000	-	1,450,314
Transfers out	-	-	(657,137)	(100,593)	-	-	-	-	(353,125)	(1,110,855)
Interfund loans paid	-	-	(59,802)	59,802	-	-	-	-	-	-
Total other financing sources (uses)	<u>404,125</u>	<u>-</u>	<u>(716,939)</u>	<u>(40,791)</u>	<u>1,036,189</u>	<u>-</u>	<u>-</u>	<u>2,583,700</u>	<u>(143,125)</u>	<u>3,123,159</u>
NET CHANGE IN CASH BALANCES	<u>310,458</u>	<u>(153,822)</u>	<u>18,200</u>	<u>(182,132)</u>	<u>(93,632)</u>	<u>(64,752)</u>	<u>441,292</u>	<u>2,054,669</u>	<u>125,082</u>	<u>2,455,363</u>
CASH BALANCES, BEGINNING OF YEAR	<u>790,667</u>	<u>101,089</u>	<u>487,233</u>	<u>1,168,158</u>	<u>(25,807)</u>	<u>422,091</u>	<u>-</u>	<u>-</u>	<u>391,186</u>	<u>3,334,617</u>
CASH BALANCES, END OF YEAR	<u>\$ 1,101,125</u>	<u>\$ (52,733)</u>	<u>\$ 505,433</u>	<u>\$ 986,026</u>	<u>\$ (119,439)</u>	<u>\$ 357,339</u>	<u>\$ 441,292</u>	<u>\$ 2,054,669</u>	<u>\$ 516,268</u>	<u>\$ 5,789,980</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, 2015
(continued)

	Special Revenue					Capital Projects				Nonmajor	Total
	General	Road Use Tax	Urban Renewal Tax Increment	Local Option Sales Tax	Debt Service	2009 Sanitary Sewer	LOST III Capital Projects	2014 Street Improvements			
Cash Basis Fund Balances											
Nonspendable - Cemetery perpetual care	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 86,255	\$ 86,255
Restricted for:											
Urban renewal	-	-	505,433	-	-	-	-	-	-	-	505,433
Other purposes	-	-	-	986,026	-	-	441,292	2,054,669	40,383	-	3,522,370
Assigned for:											
Fire station and equipment	-	-	-	-	-	-	-	-	-	292,669	292,669
Pool rehab	-	-	-	-	-	-	-	-	-	181,949	181,949
Sewer improvements	-	-	-	-	-	357,339	-	-	-	-	357,339
Street improvements	-	-	-	-	-	-	-	-	-	32,830	32,830
Unassigned	<u>1,101,125</u>	<u>(52,733)</u>	<u>-</u>	<u>-</u>	<u>(119,439)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(117,818)</u>	<u>811,135</u>
Total cash basis fund balances	<u>\$ 1,101,125</u>	<u>\$ (52,733)</u>	<u>\$ 505,433</u>	<u>\$ 986,026</u>	<u>\$ (119,439)</u>	<u>\$ 357,339</u>	<u>\$ 441,292</u>	<u>\$ 2,054,669</u>	<u>\$ 516,268</u>	<u>\$ 5,789,980</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, 2015

	Enterprise				
	<u>Water</u>	<u>Sewer</u>	<u>Solid Waste</u>	<u>Nonmajor Storm Water</u>	<u>Total</u>
OPERATING RECEIPTS:					
Charges for service	\$ 655,693	\$ 783,025	\$ 293,948	\$ 75,516	\$ 1,808,182
Miscellaneous	<u>15,604</u>	<u>2,257</u>	<u>137,222</u>	<u>-</u>	<u>155,083</u>
Total operating receipts	671,297	785,282	431,170	75,516	1,963,265
OPERATING DISBURSEMENTS:					
Business type activities	<u>402,553</u>	<u>467,564</u>	<u>342,475</u>	<u>101,048</u>	<u>1,313,640</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>268,744</u>	<u>317,718</u>	<u>88,695</u>	<u>(25,532)</u>	<u>649,625</u>
NON-OPERATING RECEIPTS:					
Intergovernmental	15,269	15,269	-	-	30,538
Interest on investments	<u>2,183</u>	<u>895</u>	<u>1,941</u>	<u>-</u>	<u>5,019</u>
Total non-operating receipts	<u>17,452</u>	<u>16,164</u>	<u>1,941</u>	<u>-</u>	<u>35,557</u>
Excess (deficiency) of receipts over (under) disbursements	286,196	333,882	90,636	(25,532)	685,182
OTHER FINANCING USES:					
Transfers out	<u>(83,415)</u>	<u>(256,044)</u>	<u>-</u>	<u>-</u>	<u>(339,459)</u>
NET CHANGE IN CASH BALANCES	202,781	77,838	90,636	(25,532)	345,723
CASH BALANCES, BEGINNING OF YEAR	<u>303,774</u>	<u>411,985</u>	<u>328,003</u>	<u>(34,421)</u>	<u>1,009,341</u>
CASH BALANCES, END OF YEAR	<u>\$ 506,555</u>	<u>\$ 489,823</u>	<u>\$ 418,639</u>	<u>\$ (59,953)</u>	<u>\$ 1,355,064</u>
CASH BASIS FUND BALANCES:					
Unrestricted	<u>\$ 506,555</u>	<u>\$ 489,823</u>	<u>\$ 418,639</u>	<u>\$ (59,953)</u>	<u>\$ 1,355,064</u>

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

CITY OF MOUNT VERNON

Notes to Financial Statements

June 30, 2015

(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 Cash Basis Statement of Activities and Net Position (previously referred to as 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 Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in the following categories/components:

CITY OF MOUNT VERNON

Notes to Financial Statements

June 30, 2015

(1) Summary of Significant Accounting Policies (continued)

B. Basis of Presentation (continued)

Nonexpendable restricted net position is subject to externally imposed stipulations which require the cash balance to be maintained permanently by the City, including the City's Permanent Fund.

Expendable restricted net position results when constraints placed on the use of cash balance are either externally imposed or imposed by law through constitutional provisions or enabling legislation. Enabling legislation did not result in any restricted net position.

Unrestricted net position consists of cash balances not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

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

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

The City reports the following major governmental funds:

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

Special Revenue:

The Urban Renewal Tax Increment Fund is used to account for tax increment financing collections and the repayment of tax increment financing indebtedness.

CITY OF MOUNT VERNON

Notes to Financial Statements

June 30, 2015

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

Capital Projects:

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

The LOST III Capital Projects Fund is used to account for funds from a local option sales tax that is used for capital projects for the City.

The 2014 Street Improvements Fund is used to account for funds used for repair and improvement to the City's streets.

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, they are both restricted and unrestricted cash basis net position 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.

CITY OF MOUNT VERNON

Notes to Financial Statements

June 30, 2015

(1) Summary of Significant Accounting Policies (continued)

C. Measurement Focus and Basis of Accounting (continued)

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.

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 Other Information. During the year ended June 30, 2015, disbursements did not exceed the amounts budgeted in any fund.

F. Property Tax Calendar

The City's property tax rates were extended against the assessed valuation of the City as of January 1, 2013 to compute the amounts which became liens on property on July 1, 2014. These taxes were due and payable in two installments on September 30, 2014 and March 31, 2015, at the Linn County Treasurer's Office. These taxes are recognized as income to the City when they are received from the county.

CITY OF MOUNT VERNON

Notes to Financial Statements

June 30, 2015

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2015, were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

At June 30, 2015, the City's deposits consisted of cash, cash equivalents, and bank certificates of deposit.

	Bank Value	Carrying Value
Checking Account	\$ 5,444,947	\$ 5,356,017
Police Forfeiture Accounts	4,536	4,536
Cash Held by Administrators		
Self Insurance Plan	69,853	69,853
Petty Cash	100	100
Money Market Account	1,534,013	1,534,013
Certificates of Deposit	180,525	180,525
Total	<u>\$ 7,233,974</u>	<u>\$ 7,145,044</u>

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.

CITY OF MOUNT VERNON
Notes to Financial Statements

June 30, 2015

(3) Bonds and Notes Payable

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

Year ending <u>June 30,</u>	<u>General Obligation Bonds & Notes</u>	
	<u>Principal</u>	<u>Interest</u>
2016	\$ 1,050,000	\$ 328,568
2017	930,000	299,306
2018	700,000	269,330
2019	680,000	246,693
2020	695,000	223,858
2021	665,000	199,873
2022	690,000	175,778
2023	475,000	150,468
2024	495,000	132,280
2025	505,000	112,945
2026	530,000	92,555
2027	550,000	70,703
2028	575,000	47,370
2029	490,000	22,610
Total	<u><u>\$ 9,030,000</u></u>	<u><u>\$ 2,372,337</u></u>

Changes during the fiscal year and current maturities are as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
General Governmental Activities General Obligation Bonds	<u>\$ 7,175,000</u>	<u>\$ 2,700,000</u>	<u>\$ 845,000</u>	<u>\$ 9,030,000</u>	<u>\$ 1,050,000</u>

During the current fiscal year the City issued \$2,700,000 in General Obligation Capital Loan Notes (Series 2014) for the funding of expenses for street improvements and the rehab of the City's swimming pool.

Pursuant to the Code of Iowa, the City's general obligation debt is limited to 5% of assessed value as follows:

Assessed Value	<u>\$ 245,263,450</u>
Debt Limit - 5% of Assessed Value	<u>\$ 12,263,173</u>
Debt Outstanding	<u>9,030,000</u>
Debt Margin	<u>\$ 3,233,173</u>

CITY OF MOUNT VERNON

Notes to Financial Statements

June 30, 2015

(4) Pension and Retirement Benefits

Plan Description - IPERS membership is mandatory for employees of the City, except for those covered by another retirement system. Employees of the City are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive P.O. Box 9117, Des Moines, IA 60306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits - A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, anytime after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. (These qualifications must be met on the member's first month of entitlement to benefits.) Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier (based on years of service)
- The member's highest five-year average salary. (For members with service before June 30, 2012, the highest three-year average salary as of that date will be used if it is greater than the highest five-year salary.)

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25 percent for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50 percent for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

CITY OF MOUNT VERNON

Notes to Financial Statements

June 30, 2015

(4) Pension and Retirement Benefits (continued)

Disability and Death Benefits - A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions - Effective July 1, 2012, as a result of a 2010 law change, the contribution rates are established by IPERS following an annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. Statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and the methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2015, pursuant to the required rate, Regular members contributed 5.95% of pay and the City contributed 8.93% for a total rate of 14.88%. Protection occupation members contributed 6.76% of pay and the City contributed 10.14% for a total rate of 16.9%.

The City's contributions to IPERS for the year ended June 30, 2015 were \$108,466.

Collective Net Pension Liabilities, Collective Pension Expense, and Collective Deferred Outflows of Resources and Collective Deferred Inflows of Resources Related to Pensions - At June 30, 2015, the City's liability for its proportionate share of the collective net pension liability totaled \$391,833. The collective net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the collective net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the collective net pension liability was based on the City's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2014, the City's proportion was .011843 percent for Regular employees and .112031 percent for Protection Occupation employees, which was a decrease of .000514 percent for Regular employees and an increase of .002261 percent for Protection Occupation employees from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the City collective pension expense, collective deferred outflows, and collective deferred inflows totaled \$43,881, \$26,361, and \$276,797, respectively.

CITY OF MOUNT VERNON

Notes to Financial Statements

June 30, 2015

(4) Pension and Retirement Benefits (continued)

Actuarial Assumptions - The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of inflation (effective June 30, 2014)	3.00 percent per annum
Rates of salary increases (effective June 30, 2010)	4.00 to 17.00 percent, average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 1996)	7.50 percent, compounded annually, net of investment expense, including inflation

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Equity	23%	6.31
Non US Equity	15%	6.76
Private Equity	13%	11.34
Real Estate	8%	3.52
Core Plus Fixed Income	28%	2.06
Credit Opportunities	5%	3.67
TIPS	5%	1.92
Other Real Assets	2%	6.27
Cash	1%	(0.69)
Total	100%	

CITY OF MOUNT VERNON

Notes to Financial Statements

June 30, 2015

(4) Pension and Retirement Benefits (continued)

Discount Rate - The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the City will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate.

	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
City's proportionate share of the net pension liability	\$ 997,771	\$ 391,833	\$ (119,378)

Pension Plan Fiduciary Net Position - Detailed information about the pension plan's fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website www.ipers.org.

(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, 2015, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 79,536
Sick Leave (minimum)	65,070
Total	\$ 144,606

This liability has been computed based on rates of pay in effect at June 30, 2015.

CITY OF MOUNT VERNON

Notes to Financial Statements

June 30, 2015

(5) Compensated Absences (continued)

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 \$65,070 at June 30, 2015.

The City is also potentially liable for severance pay and continued health coverage for certain 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, half of their accrued sick leave, all of their accrued vacation, and health coverage. Calculated based on rates of pay and the insured cost of health coverage as of June 30, 2015, the total per employee for the two employees affected approximates \$80,739 and \$35,935, respectively.

(6) Meter Deposits

At June 30, 2015, the City was holding meter deposits from individuals in the amount of \$6,401.

(7) Interfund Transfers and Loans

The detail of interfund transfers for the year ended June 30, 2015 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Employee Benefit	\$ 318,976
	Emergency Levy	34,149
	Water	25,500
	Sewer	25,500
Debt Service	Urban Renewal Tax Increment	647,137
	Water	57,915
	Local Option Sales Tax	100,593
	Sewer	230,544
Capital Projects	Urban Renewal Tax Increment	10,000
Local Option Sales Tax	Urban Renewal Tax Increment	<u>59,802</u>
Total		<u><u>\$ 1,510,116</u></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 transfer of \$59,802 was a repayment of a prior year interfund loan. There were also \$81,000 of transfers within the same fund to different departments.

CITY OF MOUNT VERNON

Notes to Financial Statements

June 30, 2015

(8) Risk Management

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

(9) Deficit Balances

The Capital Project Fund deficit balance of \$(98,974) was a result of project costs incurred prior to availability of funds. This deficit will be eliminated next year upon receipt of TIF funds.

The Storm Water Fund deficit balance of \$(59,953) was caused by increases in State unfunded mandates which the City has no control over. User fees need to be increased and will be discussed when the new council is in session.

The Debt Service Fund deficit balance of \$(119,439) was due to insufficient transfers being made from other funds to cover the necessary debt payments. The transfer amounts will be reviewed for the 2016 fiscal year to ensure the proper amounts are transferred.

The Sidewalk Project Fund deficit balance of \$(18,844) was due to costs being higher during the year than originally planned. This is a multi-year project so an adjustment will be made for the next year's budget.

The Road Use Tax Fund deficit balance of \$(52,733) was due to unanticipated expenses. Management is investigating these expenses to make changes and plan better.

(10) Commitments and Contingencies

As of June 30, 2015, the City has various outstanding construction contracts totaling \$752,808.

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.

The City has a multi-year contract with Utility Service Company, Inc., starting in 2013, which includes interior and exterior renovations, repairs, and emergency services on the water tower. Years one through four require payments of \$49,797 per year and years five through seven require payments of \$18,997 per year.

Amounts received or receivable from Federal and State agencies are subject to agency audit and adjustment. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable fund. The amount, if any, of funds which may be disallowed by the agencies cannot be determined at this time although the City expects such amount, if any, to be immaterial.

CITY OF MOUNT VERNON

Notes to Financial Statements

June 30, 2015

(11) Subsequent Events

Management evaluated subsequent events through January 14, 2016, the date the financial statements were available to be issued. Events or transactions occurring after June 30, 2015, but prior to January 14, 2016, that provided additional evidence about conditions that existed at June 30, 2015, have been recognized in the financial statements for the year ended June 30, 2015. Events or transactions that provided evidence about conditions that did not exist at June 30, 2015, 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, 2015.

In July 2015, the City issued \$375,000 of General Obligation Capital Loan Notes.

OTHER 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
Other Information
Year ended June 30, 2015

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted	Total	Budgeted Amounts		Final to Total Variance
					Original	Final	
RECEIPTS:							
Property tax	\$ 1,663,694	\$ -	\$ -	\$ 1,663,694	\$ 1,595,129	\$ 1,595,129	\$ 68,565
Tax increment financing	734,244	-	-	734,244	666,317	666,317	67,927
Other city tax	632,823	-	-	632,823	80,064	80,064	552,759
Licenses and permits	52,919	-	-	52,919	70,000	85,000	(32,081)
Use of money and property	75,839	5,019	-	80,858	18,800	18,800	62,058
Intergovernmental	571,440	30,538	-	601,978	455,000	480,000	121,978
Charges for service	159,756	1,808,182	-	1,967,938	2,085,000	2,105,000	(137,062)
Miscellaneous	63,442	155,083	-	218,525	195,461	195,461	23,064
Total receipts	<u>3,954,157</u>	<u>1,998,822</u>	<u>-</u>	<u>5,952,979</u>	<u>5,165,771</u>	<u>5,225,771</u>	<u>727,208</u>
DISBURSEMENTS:							
Public safety	745,901	-	-	745,901	946,601	961,601	215,700
Public works	649,072	-	-	649,072	502,873	682,873	33,801
Culture and recreation	457,920	-	-	457,920	489,283	519,283	61,363
Community and economic development	74,607	-	-	74,607	138,900	138,900	64,293
General government	455,118	-	-	455,118	566,069	566,069	110,951
Debt service	1,179,073	-	-	1,179,073	1,129,281	1,189,281	10,208
Capital projects	1,060,262	-	-	1,060,262	2,475,797	2,075,797	1,015,535
Business type activities	-	1,313,640	-	1,313,640	1,635,716	1,695,716	382,076
Total disbursements	<u>4,621,953</u>	<u>1,313,640</u>	<u>-</u>	<u>5,935,593</u>	<u>7,884,520</u>	<u>7,829,520</u>	<u>1,893,927</u>
Excess (deficiency) of receipts over (under) disbursements	(667,796)	685,182	-	17,386	(2,718,749)	(2,603,749)	2,621,135
OTHER FINANCING SOURCES (USES), NET	<u>3,123,159</u>	<u>(339,459)</u>	<u>-</u>	<u>2,783,700</u>	<u>2,500,000</u>	<u>2,540,000</u>	<u>243,700</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	2,455,363	345,723	-	2,801,086	(218,749)	(63,749)	2,864,835
BALANCES, BEGINNING OF YEAR	<u>3,334,617</u>	<u>1,009,341</u>	<u>-</u>	<u>4,343,958</u>	<u>3,217,289</u>	<u>3,217,289</u>	<u>1,126,669</u>
BALANCES, END OF YEAR	<u>\$ 5,789,980</u>	<u>\$ 1,355,064</u>	<u>\$ -</u>	<u>\$ 7,145,044</u>	<u>\$ 2,998,540</u>	<u>\$ 3,153,540</u>	<u>\$ 3,991,504</u>

CITY OF MOUNT VERNON

Notes to Other Information - Budgetary Reporting

June 30, 2015

The budgetary comparison is presented as Other 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, one budget amendment increased budgeted receipts by \$100,000 and decreased disbursements by \$55,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2015, disbursements exceeded budgeted amounts in the public works function prior to the budget being amended.

CITY OF MOUNT VERNON

Schedule of the City's Proportionate Share of the Net Pension Liability

June 30, 2015

Iowa Public Employees' Retirement System
(In Thousands)

	<u>2015</u>
City's proportion of the net pension liability:	
Regular	0.01184%
Police	0.11203%
City's total proportionate share of the net pension liability	\$ 392
City's covered-employee payroll	\$ 1,163
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	33.71%
Plan fiduciary net position as a percentage of the total pension liability	87.61%

* The amounts presented for each fiscal year were determined as of June 30.

Note: GASB 68 requires 10 years of information to be presented in this table. However, until a full 10 year trend is compiled, the City will present information for those years for which the information is available.

CITY OF MOUNT VERNON
Schedule of City Contributions

June 30, 2015

Iowa Public Employees' Retirement System
(In Thousands)

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Statutorily required contribution	\$ 108	\$ 107	\$ 104	\$ 98	\$ 85	\$ 79	\$ 70	\$ 64	\$ 58	\$ 53
Contributions in relation to the statutorily required contribution	<u>(108)</u>	<u>(107)</u>	<u>(104)</u>	<u>(98)</u>	<u>(85)</u>	<u>(79)</u>	<u>(70)</u>	<u>(64)</u>	<u>(58)</u>	<u>(53)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll (regular)	\$ 787	\$ 791	\$ 796	\$ 823	\$ 753	\$ 750	\$ 699	\$ 652	\$ 583	\$ 518
City's covered-employee payroll (police)	\$ 376	\$ 358	\$ 342	\$ 322	\$ 331	\$ 313	\$ 302	\$ 287	\$ 267	\$ 251
Contributions as a percentage of covered-employee payroll (regular)	8.93%	8.93%	8.67%	8.07%	6.95%	6.65%	6.35%	6.05%	5.75%	5.75%
Contributions as a percentage of covered-employee payroll (police)	10.14%	10.14%	10.27%	9.97%	9.95%	9.20%	8.45%	8.47%	9.12%	9.23%

CITY OF MOUNT VERNON

Notes to Other Information – Pension Liability

June 30, 2015

Iowa Public Employees' Retirement System

Changes in Benefit Terms

Legislation passed in 2010 modified benefit terms for current Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3 percent per year measured from the member's first unreduced retirement age to a 6 percent reduction for each year of retirement before age 65.

In 2008, legislative action transferred four groups – emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers – from Regular membership to the protection occupation group for future service only.

Benefit provisions for sheriffs and deputies were changed in the 2004 legislative session. The eligibility for unreduced retirement benefits was lowered from age 55 by one year each July 1 (beginning in 2004) until it reached age 50 on July 1, 2008. The years of service requirement remained at 22 or more. Their contribution rates were also changed to be shared 50-50 by the employee and employer, instead of the previous 40-60 split.

Changes of assumptions

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25 percent to 3.00 percent.
- Decreased assumed rate of interest on member accounts from 4.00 percent to 3.75 percent per year.
- Adjusted male mortality rates for retirees in Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20 year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

CITY OF MOUNT VERNON

Notes to Other Information – Pension Liability

June 30, 2015

Iowa Public Employees' Retirement System

Changes of assumptions (continued)

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included in the calculation of the UAL amortization payments the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate.

The 2006 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted salary increase assumptions to service based assumptions
- Decreased the assumed interest rate credited on employee contributions from 4.25 percent to 4.00 percent.
- Lowered the inflation assumption from 3.50 percent to 3.25 percent.
- Lowered disability rates for sheriffs and deputies and protection occupation members.

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, 2015

Schedule 1

	Special Revenue					Capital Projects					Permanent	Total
	Insurance Levy	Employee Benefits	Emergency Levy	Low-Moderate Income	2006/2009 Water Improvement	Fire Department	Highway 30 Corridor Improvements	Capital Projects	Sidewalk Project	Pool Rehab	Cemetery Perpetual Care	
Receipts:												
Property tax	\$ 150,047	\$ 319,336	\$ 34,187	\$ -	\$ -	\$ 85,468	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 589,038
Intergovernmental	-	-	-	-	-	-	4,260	-	-	-	-	4,260
Miscellaneous	-	-	-	-	-	-	209	-	-	-	1,230	1,439
Total receipts	<u>150,047</u>	<u>319,336</u>	<u>34,187</u>	<u>-</u>	<u>-</u>	<u>85,468</u>	<u>4,469</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,230</u>	<u>594,737</u>
Disbursements:												
Operating:												
General government	126,022	-	-	-	-	-	-	-	-	-	-	126,022
Capital projects	-	-	-	-	54,865	2,030	29,617	92,767	3,178	18,051	-	200,508
Total disbursements	<u>126,022</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>54,865</u>	<u>2,030</u>	<u>29,617</u>	<u>92,767</u>	<u>3,178</u>	<u>18,051</u>	<u>-</u>	<u>326,530</u>
Excess (deficiency) of receipts over (under) disbursements	<u>24,025</u>	<u>319,336</u>	<u>34,187</u>	<u>-</u>	<u>(54,865)</u>	<u>83,438</u>	<u>(25,148)</u>	<u>(92,767)</u>	<u>(3,178)</u>	<u>(18,051)</u>	<u>1,230</u>	<u>268,207</u>
Other financing sources (uses):												
Bond proceeds	-	-	-	-	-	-	-	-	-	200,000	-	200,000
Transfers in	-	-	-	-	-	-	-	10,000	-	-	-	10,000
Transfers out	-	(318,976)	(34,149)	-	-	-	-	-	-	-	-	(353,125)
Total other financing sources (uses)	<u>-</u>	<u>(318,976)</u>	<u>(34,149)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,000</u>	<u>-</u>	<u>200,000</u>	<u>-</u>	<u>(143,125)</u>
Net change in cash balances	24,025	360	38	-	(54,865)	83,438	(25,148)	(82,767)	(3,178)	181,949	1,230	125,082
Cash balances, beginning of year	(4,769)	9,147	1,045	10,537	54,865	209,231	57,978	(16,207)	(15,666)	-	85,025	391,186
Cash balances, end of year	<u>\$ 19,256</u>	<u>\$ 9,507</u>	<u>\$ 1,083</u>	<u>\$ 10,537</u>	<u>\$ -</u>	<u>\$ 292,669</u>	<u>\$ 32,830</u>	<u>\$ (98,974)</u>	<u>\$ (18,844)</u>	<u>\$ 181,949</u>	<u>\$ 86,255</u>	<u>\$ 516,268</u>
Cash Basis Fund Balances												
Nonspendable - cemetery perpetual care	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 86,255	\$ 86,255
Restricted for:												
Other	19,256	9,507	1,083	10,537	-	-	-	-	-	-	-	40,383
Assigned for:												
Fire station and equipment	-	-	-	-	-	292,669	-	-	-	-	-	292,669
Street improvements	-	-	-	-	-	-	32,830	-	-	-	-	32,830
Pool rehab	-	-	-	-	-	-	-	-	-	181,949	-	181,949
Unassigned	-	-	-	-	-	-	-	(98,974)	(18,844)	-	-	(117,818)
Total cash basis fund balances	<u>\$ 19,256</u>	<u>\$ 9,507</u>	<u>\$ 1,083</u>	<u>\$ 10,537</u>	<u>\$ -</u>	<u>\$ 292,669</u>	<u>\$ 32,830</u>	<u>\$ (98,974)</u>	<u>\$ (18,844)</u>	<u>\$ 181,949</u>	<u>\$ 86,255</u>	<u>\$ 516,268</u>

**City of Mount Vernon
Schedule of Indebtedness
Year ended June 30, 2015**

Schedule 2

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:									
2007 Capital improvements	May 1, 2007	4.00%	\$ 4,410,000	\$ 2,180,000	\$ -	\$ 365,000	\$ 1,815,000	\$ 87,200	\$ -
2009A Sewer improvements	July 1, 2009	2.00 - 3.75%	400,000	195,000	-	45,000	150,000	6,838	-
2009B Sewer/water improvements	Sept. 22, 2009	1.50 - 5.90%	3,500,000	2,950,000	-	145,000	2,805,000	151,802	-
2010A Fire station construction	Oct. 19, 2010	0.90 - 2.85%	400,000	280,000	-	45,000	235,000	6,443	-
2010B Land purchase	Dec. 1, 2010	0.46 - 1.81%	160,000	80,000	-	25,000	55,000	1,218	-
2012 Bond refunding	Oct. 10, 2012	0.35 - 0.60%	570,000	290,000	-	145,000	145,000	1,595	-
2013A Highway 30 Corridor Improvements	July 1, 2013	0.85 - 3.10%	1,200,000	1,200,000	-	75,000	1,125,000	25,592	-
2014 Street Improvements/Pool Rehab	Sept. 22, 2014	2.00 - 3.10%	2,700,000	-	2,700,000	-	2,700,000	49,385	-
Total				<u>\$ 7,175,000</u>	<u>\$ 2,700,000</u>	<u>\$ 845,000</u>	<u>\$ 9,030,000</u>	<u>\$ 330,073</u>	<u>\$ -</u>

CITY OF MOUNT VERNON
Bond and Note Maturities
June 30, 2015

Schedule 3

General Obligation Bonds and Capital Loan Notes

Year ending June 30,	2007 Capital Improvements		2009A Sewer Improvements		2009B Sewer/Water Improvements		2010A Fire Station Construction	
	Issued May 1, 2007		Issued July 1, 2009		Issued September 22, 2009		Issued October 19, 2010	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2016	4.00%	\$ 380,000	3.25%	\$ 50,000	4.00%	\$ 155,000	1.90%	\$ 45,000
2017	4.00%	395,000	3.75%	50,000	4.25%	155,000	2.20%	45,000
2018	4.00%	190,000	3.75%	50,000	4.50%	160,000	2.45%	45,000
2019	4.00%	200,000	-	-	4.75%	170,000	2.70%	50,000
2020	4.00%	210,000	-	-	5.00%	175,000	2.85%	50,000
2021	4.00%	215,000	-	-	5.00%	180,000	-	-
2022	4.00%	225,000	-	-	5.10%	190,000	-	-
2023	-	-	-	-	5.25%	195,000	-	-
2024	-	-	-	-	5.35%	210,000	-	-
2025	-	-	-	-	5.50%	215,000	-	-
2026	-	-	-	-	5.65%	230,000	-	-
2027	-	-	-	-	5.75%	245,000	-	-
2028	-	-	-	-	5.85%	260,000	-	-
2029	-	-	-	-	5.90%	265,000	-	-
		<u>\$ 1,815,000</u>		<u>\$ 150,000</u>		<u>\$ 2,805,000</u>		<u>\$ 235,000</u>

General Obligation Bonds and Capital Loan Notes

Year ending June 30,	2010B Land Purchase		2012 Bond Refunding		2013A Highway 30 Corridor		2014 2014 Street Impr./Pool		Total
	Issued December 1, 2010		Issued October 10, 2012		Issued July 1, 2013		Issued September 22, 2014		
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
2016	1.50%	\$ 25,000	0.60%	\$ 145,000	0.85%	\$ 75,000	2.00%	\$ 175,000	\$ 1,050,000
2017	1.81%	30,000	-	-	0.85%	80,000	2.00%	175,000	930,000
2018	-	-	-	-	1.70%	80,000	2.00%	175,000	700,000
2019	-	-	-	-	1.70%	80,000	2.25%	180,000	680,000
2020	-	-	-	-	1.70%	80,000	2.25%	180,000	695,000
2021	-	-	-	-	2.20%	85,000	2.50%	185,000	665,000
2022	-	-	-	-	2.20%	85,000	2.50%	190,000	690,000
2023	-	-	-	-	2.50%	90,000	3.00%	190,000	475,000
2024	-	-	-	-	2.50%	90,000	3.00%	195,000	495,000
2025	-	-	-	-	2.85%	90,000	3.00%	200,000	505,000
2026	-	-	-	-	2.85%	95,000	3.00%	205,000	530,000
2027	-	-	-	-	3.10%	95,000	3.00%	210,000	550,000
2028	-	-	-	-	3.10%	100,000	3.00%	215,000	575,000
2029	-	-	-	-	-	-	3.10%	225,000	490,000
		<u>\$ 55,000</u>		<u>\$ 145,000</u>		<u>\$ 1,125,000</u>		<u>\$ 2,700,000</u>	<u>\$ 9,030,000</u>

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

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Receipts:										
Property tax	\$ 1,663,694	\$ 1,476,458	\$ 1,378,806	\$ 1,377,296	\$ 1,235,073	\$ 1,155,472	\$ 1,025,006	\$ 1,142,527	\$ 991,801	\$ 854,772
Tax increment financing collections	734,244	733,720	724,854	676,858	812,338	759,471	899,722	333,708	595,021	739,361
Other city tax	632,823	640,055	603,508	648,531	614,939	609,832	126,127	74,599	103,758	560,300
Licenses and permits	52,919	52,550	79,764	72,490	71,759	58,929	84,542	69,276	57,439	90,086
Use of money and property	75,839	70,114	57,515	48,155	62,742	57,413	54,388	89,050	102,637	43,350
Intergovernmental	571,440	2,171,496	525,268	439,696	428,944	404,529	369,307	367,161	355,094	342,940
Charges for service	159,756	110,852	141,688	145,794	135,642	119,055	95,746	120,979	107,965	113,589
Miscellaneous	63,442	171,138	105,686	160,217	168,948	102,730	81,604	108,347	71,189	84,446
Total	<u>\$ 3,954,157</u>	<u>\$ 5,426,383</u>	<u>\$ 3,617,089</u>	<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>
Disbursements:										
Operating:										
Public safety	\$ 745,901	\$ 726,626	\$ 876,131	\$ 635,662	\$ 727,507	\$ 632,578	\$ 647,294	\$ 576,270	\$ 548,890	\$ 528,275
Public works	649,072	512,359	439,613	429,652	336,272	392,934	379,826	330,170	264,064	380,354
Culture and recreation	457,920	479,086	428,942	472,897	418,667	358,976	325,455	294,977	284,887	269,225
Community and economic development	74,607	89,062	83,419	69,388	52,829	67,948	69,516	77,194	54,270	38,541
General government	455,118	438,919	412,819	485,011	414,880	372,293	363,621	288,571	270,390	265,636
Debt service	1,179,073	1,032,898	1,035,875	1,120,761	1,145,441	1,595,321	602,659	728,040	2,366,083	511,753
Capital projects	1,060,262	2,983,531	1,619,211	3,708,097	1,276,918	1,085,228	2,110,990	1,098,329	508,431	568,756
Total	<u>\$ 4,621,953</u>	<u>\$ 6,262,481</u>	<u>\$ 4,896,010</u>	<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>



**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, 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, the 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, 2015, and the related notes to the financial statements, which collectively comprise the City of Mount Vernon, Iowa's basic financial statements, and have issued our report thereon dated January 14, 2016. Our report expressed unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Mount Vernon, Iowa's internal control over financial reporting to determine the audit procedures are appropriate in the circumstances 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 of Mount Vernon, Iowa's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Mount Vernon, Iowa's internal control.

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 City's financial statements will not be prevented, or detected and corrected on a timely basis.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We consider the deficiency described in Part II of the accompanying Schedule of Findings and Questioned Costs as item 2015-001 to be a significant deficiency.

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

Compliance and Other Matters

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

We noted certain other matters that we reported to management of the City in a separate letter dated January 14, 2016.

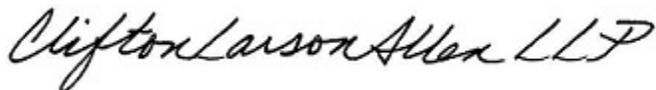
Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2015 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

City of Mount Vernon's Responses to Findings

The City of Mount Vernon, Iowa's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The City of Mount Vernon, Iowa's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Cedar Rapids, Iowa
January 14, 2016

CITY OF MOUNT VERNON

Schedule of Findings and Questioned Costs

Year ended June 30, 2015

Part I: SUMMARY OF THE INDEPENDENT AUDITORS' RESULTS:

- (a) Unmodified 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:

2015-001: 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. 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. Bank reconciliations are not always being reviewed and signed off by the City Administrator. There is also no specific review of each department's budget to actual results on a monthly basis.

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 Questioned Costs

Year ended June 30, 2015

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

INTERNAL CONTROL DEFICIENCY: (CONTINUED)

2015-001: 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. In regards to reviewing and approving bank reconciliations, we suggest that the City Administrator do this each month in a timely manner. The City Administrator should also be reviewing each department's monthly budget to actual results.

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:

None noted.

PART III: OTHER FINDINGS RELATED TO REQUIRED STATUTORY REPORTING:

III-A-15 Certified Budget – Prior to amending the budget, disbursements during the year ended June 30, 2015 exceeded the amounts budgeted in the public works 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.

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

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

Conclusion – Response accepted.

- III-B-15 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-15 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- III-D-15 Business Transactions - No business transactions between the City and City officials or employees were noted.
- III-E-15 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-15 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.
- III-G-15 Deposits and Investments - No instances of noncompliance were noted with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.
- III-H-15 Financial Condition - The Capital Projects, Storm Water, Debt Service, Sidewalk Project, and Road Use Tax funds had deficit balances at June 30, 2015 of \$98,974, \$59,953, \$119,439, \$18,884, and \$52,733 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 Project Fund deficit balance was a result of project costs incurred prior to availability of funds and will be eliminated next year upon receipt of TIF funds. The Storm Water Fund deficit balance was caused by increases in State unfunded mandates and will be eliminated through increases in storm water rates. The Debt Service Fund deficit balance was due to insufficient transfers being made from other funds to cover the necessary debt payments. Transfer amounts will be reviewed for the 2016 fiscal year to ensure proper amounts are transferred. The Sidewalk Project Fund deficit balance was due to costs being higher during the year than originally planned. This is a multi-year project so an adjustment will be made for the next year's budget. The Road Use Tax Fund deficit balance was due to unanticipated expenses. Management is investigating these expenses so that changes can be made in fiscal year 2016.

Conclusion - Response accepted.