

CITY OF MT. VERNON, MISSOURI
BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2006

TABLE OF CONTENTS

INDEPENDENT AUDITORS' REPORT	4
MANAGEMENT'S DISCUSSION AND ANALYSIS	7
BASIC FINANCIAL STATEMENTS	
Statement of Net Assets	14
Statement of Activities.....	15
Balance Sheet - Governmental Funds.....	16
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	17
Statement of Revenues, Expenses and Changes in Fund Balances – Governmental Funds	18
Reconciliation of the Statement of Revenues, Expenses, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	19
Statement of Net Assets – Proprietary Funds	20
Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Funds.....	21
Statement of Cash Flows – Proprietary Funds.....	22
Notes to Basic Financial Statements.....	23
REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of Funding Progress	48
Budgetary Comparison Schedule – General Fund.....	49
Budgetary Comparison Schedule – Special Sales Tax Fund.....	51
Budgetary Comparison Schedule – Industrial Development Fund.....	52
Note to Budgetary Comparison Schedules	53

TABLE OF CONTENTS

OTHER FINANCIAL INFORMATION

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 <i>Government Auditing Standards</i>	55
---	----



DAVIS, LYNN &
MOOTS, P.C.
Certified Public
Accountants

LARRY M. BROWN, CPA
LAWRENCE W. DAVIS, CPA
ANTHONY D. LYNN, CPA
RANDALL G. MOOTS, CPA
ANGELA M. PATRICK, CPA
ANDREW A. MARMOUGET, CPA

3828 SOUTH AVENUE
SPRINGFIELD, MO 65807
(417) 882-0904
FAX (417) 882-4343

www.dlmcpa.com
e-mail: cpa@dlmcpa.com

INDEPENDENT AUDITORS' REPORT

Honorable Mayor and Board of Aldermen
City of Mt. Vernon
Mt. Vernon, Missouri

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the City of Mt. Vernon, Missouri, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Mt. Vernon, Missouri's management. Our responsibility is to express opinions on these financial statements based on our audit.

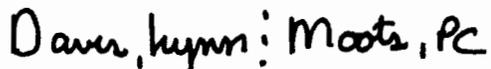
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities and each major fund of the City of Mt. Vernon, Missouri, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Honorable Mayor and Board of Aldermen
City of Mt. Vernon
Mt. Vernon, Missouri

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2006 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis, budgetary comparison schedules, and schedule of funding progress are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink that reads "Davis, Lynn & Moots, PC". The signature is written in a cursive, slightly slanted style.

DAVIS, LYNN & MOOTS, P.C.
November 10, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF MT. VERNON, MISSOURI
June 30, 2006

The management's discussion and analysis of the City of Mt. Vernon's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2006. Please read it in conjunction with the City's financial statements, which begin on page 14.

Financial Highlights

- The net assets of the City's governmental activities decreased by \$298,773 as a result of current year activities. The net assets of the City's business activities increased by \$549,336 for the year.
- The assets of the City exceeded its liabilities as of June 30, 2006 by \$23,434,825. Of this amount \$5,829,176 was unrestricted and may be used to meet future obligations of the City.
- During FY06 the City refunded \$3,555,000 of Series 2002 Certificates of Participation with the proceeds from issuance of the Series 2005 Refunding Certificates of Participation.

Using This Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements tell how these services were financed in the short-term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds.

Government-Wide Financial Statements

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the City's net assets and changes in them. The City's net assets – the difference between assets and liabilities – is one way to measure the City's financial health, or financial position. Over time, increases or decreases in the City's net assets are one indicator of whether its financial health is improving or deteriorating.

MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF MT. VERNON, MISSOURI
June 30, 2006

Government-Wide Financial Statements (continued)

In the Statement of Net Assets and the Statement of Activities, we divide the City into two kinds of activities:

- Governmental Activities – Most of the City's basic services are reported here. Taxes are the primary sources of financing for these activities.
- Business-Type Activities – The City charges a fee to customers to help it cover all or most of the cost of certain services it provides. The City's electric, water, and sewer services are provided here.

Fund Financial Statements

The fund financial statements provide detailed information about the City's funds and not the City as a whole. The Board of Aldermen establishes funds to help it control and manage money for a particular purpose or to show that it is meeting legal responsibilities for using certain taxes and grants.

- Governmental Funds – Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. The differences between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and the governmental funds are shown in a reconciliation following the fund financial statements.
- Enterprise Funds – When the City charges customers for the services it provides – whether to outside customers or to other units of the City – these services are generally reported in enterprise funds. Enterprise funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities.

MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF MT. VERNON, MISSOURI
June 30, 2006

Notes to the Basic Financial Statements

The Notes to the Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Government-Wide Financial Analysis

NET ASSETS

The following table presents the condensed Statement of Net Assets for the City as of June 30, 2006 and 2005:

	Governmental Activities	Business-Type Activities	Total June 30, 2006	Total June 30, 2005
Current and other assets	\$ 2,658,276	\$ 6,640,646	\$ 9,298,922	\$ 8,574,106
Capital assets	14,098,175	10,580,070	24,678,245	25,386,018
TOTAL ASSETS	16,756,451	17,220,716	33,977,167	33,960,124
Other liabilities	267,643	921,146	1,188,789	803,285
Long-term liabilities	1,714,209	7,639,344	9,353,553	9,887,415
TOTAL LIABILITIES	1,981,852	8,560,490	10,542,342	10,690,700
Net assets:				
Invested in capital assets				
net of related debt	12,245,682	2,691,449	14,937,131	17,002,651
Restricted	1,593,799	1,074,719	2,668,518	2,677,185
Unrestricted	935,118	4,894,058	5,829,176	3,504,425
TOTAL NET ASSETS	\$ 14,774,599	\$ 8,660,226	\$ 23,434,825	\$ 23,184,261

Total net assets of the City increased by \$250,563 for the year due to current year activity. Total liabilities for the City have decreased by \$148,358. Restricted net assets of the City totaled \$2,668,518 as of June 30, 2006. This amount represents assets that are restricted for debt service.

MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF MT. VERNON, MISSOURI
June 30, 2006

CHANGES IN NET ASSETS

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total Year Ended June 30, 2006</u>	<u>Total Year Ended June 30, 2005</u>
REVENUES				
Program Revenues				
Charges for services	\$ 212,047	\$ 6,797,075	\$ 7,009,122	\$ 5,475,292
Operating grants and contributions	55,898	-	55,898	-
Capital grants and contributions	24,095	-	24,095	187,755
General Revenues				
Sales taxes	1,101,520	-	1,101,520	904,661
Motor vehicle and gas taxes	164,877	-	164,877	188,961
Ad valorem taxes	24,494	-	24,494	22,793
Franchise fees	95,953	-	95,953	97,012
Interest	153,212	171,653	324,865	107,618
Other revenue	32,332	-	32,332	132,671
Transfers	81,106	(81,106)	-	-
Loss on Sale of Capital Asset	(34,396)	-	(34,396)	-
	<u>1,911,138</u>	<u>6,887,622</u>	<u>8,798,760</u>	<u>7,116,763</u>
TOTAL REVENUES AND TRANSFERS				
EXPENSES				
Administrative	169,458	-	169,458	367,514
Police	459,916	-	459,916	442,917
Municipal court	24,222	-	24,222	-
Fire	123,470	-	123,470	89,232
Animal control	7,828	-	7,828	8,299
Parks	224,213	-	224,213	207,627
Street	782,630	-	782,630	623,508
Planning and zoning	56,667	-	56,667	50,263
Transportation	36,317	-	36,317	57,821
Airport	20,223	-	20,223	22,313
Golf	180,360	-	180,360	170,458
Industrial development	4,125	-	4,125	-
Debt service	120,482	-	120,482	195,250
Electric	-	4,570,180	4,570,180	3,785,458
Water	-	1,126,521	1,126,521	949,302
Sewer	-	641,585	641,585	1,033,373
	<u>2,209,911</u>	<u>6,338,286</u>	<u>8,548,197</u>	<u>8,003,335</u>
TOTAL EXPENSES				
INCREASE (DECREASE) IN NET ASSETS	<u>\$ (298,773)</u>	<u>\$ 549,336</u>	<u>\$ 250,563</u>	<u>\$ (886,572)</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF MT. VERNON, MISSOURI
June 30, 2006

Governmental Activities

Governmental activities decreased the net assets of the City by \$298,773. Tax revenues for the City were \$1,386,844, which represents 72% of the funding of these activities. Program and other revenues for the functions totaled just \$292,040, or only 15% of the funding. The following table shows the cost of the City's programs as well as each program's net cost (total cost less revenues generated by the activities). The net cost shows the financial burden that was placed on the taxpayers by each of these functions.

**NET COST OF THE CITY OF MT. VERNON'S
GOVERNMENTAL ACTIVITIES**

	Total Cost of Services	Net Cost of Services
Administration	\$ 169,458	\$ 146,783
Police	459,916	413,117
Municipal court	24,222	24,222
Fire	123,470	76,701
Animal control	7,828	7,628
Parks	224,213	201,509
Street	782,630	782,630
Planning and zoning	56,667	56,667
Transportation	36,317	(5,101)
Airport	20,223	20,223
Golf	180,360	68,885
Industrial development	4,125	4,125
Principal and Interest	120,482	120,482
	\$ 2,209,911	\$ 1,917,871

Business-Type Activities

Business-type activities increased the City's net assets by \$549,336. Last year the business-type activities decreased net assets by \$628,176.

MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF MT. VERNON, MISSOURI
June 30, 2006

Financial Analysis of the City's Funds

The combined fund balances of the City's governmental funds as of June 30, 2006 was \$2,594,020. The General Fund increased by \$136,106. The Special Sales Tax Fund increased by \$149,406. The Industrial Development Fund decreased by \$22,793. The Debt Service Fund increased by \$73,576.

General Fund Budgetary Highlights

The City of Mt. Vernon did not amend the original budget in the General Fund for revenues or expenses. The City budgeted revenues of \$998,370 and budgeted expenses of \$1,745,890.

Capital Assets and Debt Administration

Capital Assets

Capital assets of the governmental activities were \$14,098,175 (net of accumulated depreciation) as of June 30, 2006. This represents a \$772,250 decrease from the prior year due primarily sale of industrial property and depreciation expense. Capital assets for business-type activities was \$10,580,070 as of June 30, 2006. This represents an increase of \$64,477.

Debt

Total debt of the governmental activities as of June 30, 2006 was \$1,852,493. Governmental activities debt consists of \$360,000 in 1992 General Obligation Bonds, \$1,395,000 in 1995 General Obligation Industrial Bonds, and \$97,493 in capital lease obligations.

Total debt of the business-type activities as of June 30, 2006 was \$7,973,620, which is up by \$78,405 from the prior year. This is due to the issuance of the 2005 Certificates of Participation issued for \$3,850,000 in order to refund \$3,555,000 of Series 2002 Certificates of Participation.

MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF MT. VERNON, MISSOURI
June 30, 2006

Economic Factors and Next Years Budget

Sales Tax is the main source of revenue for the General Fund. Sales tax collections have been increasing steadily but the City will continue its concerted effort to encourage cost savings in every department. Inflation costs of fuel and material are major concerns to the City in being able to continue providing necessary services.

The City continues to plan projects to improve its infrastructures. Certificates of Participation 2002 lease purchase projects included the constructions of two new water towers and wells along with electrical upgrades. The 2003 COP issue is adding bigger water lines of which a substantial portion has been completed. Engineers are working with the City to establish rate structures for the water and sewer funds for a three year period. Long-range plans are being made for replacement of our aging wastewater treatment facility.

The City's transportation service is continuing to be upgraded through grants from MoDot with the purchase of mini-bus and cost sharing of expenses.

Contacting the City's Financial Management

For additional information or questions, please contact any of the following officers at:

City of Mt. Vernon
319 E. Dallas, P.O. Box 70
Mt. Vernon, MO 65712
(417) 466-2122

Dave Eden, Mayor
John Rice, City Administrator
Shannon Neely, City Clerk

CITY OF MT. VERNON, MISSOURI
STATEMENT OF NET ASSETS
June 30, 2006

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents - unrestricted	\$ 930,847	\$ 1,393,816	\$ 2,324,663
Investments	-	1,286,924	1,286,924
Taxes receivable	221,951	-	221,951
Utilities receivable	-	641,877	641,877
Note receivable	1,525,694	-	1,525,694
Interfund balances	(117,737)	117,737	-
Inventory	-	469,842	469,842
Restricted cash and cash equivalents	52,926	501,974	554,900
Restricted investments	44,595	1,824,081	1,868,676
Deferred bond issuance costs	-	404,395	404,395
Capital Assets:			
Non-depreciable	247,200	100,979	348,179
Depreciable, net	13,850,975	10,479,091	24,330,066
TOTAL ASSETS	\$ 16,756,451	\$ 17,220,716	\$ 33,977,167
LIABILITIES			
Current			
Accounts payable	\$ 8,654	\$ 389,293	\$ 397,947
Accrued expenses	32,416	13,141	45,557
Deposits payable	-	88,273	88,273
Court bonds payable	601	-	601
Accrued interest payable	21,141	146,818	167,959
Current maturities of long-term debt	204,831	283,621	488,452
	267,643	921,146	1,188,789
Noncurrent			
Compensated absences payable	66,547	34,344	100,891
Capital leases payable	37,662	-	37,662
General obligation bonds	1,610,000	-	1,610,000
Revenue bonds payable	-	1,240,000	1,240,000
Certificates of participation	-	6,365,000	6,365,000
	1,714,209	7,639,344	9,353,553
TOTAL LIABILITIES	1,981,852	8,560,490	10,542,342
NET ASSETS			
Invested in capital assets, net of related debt	12,245,682	2,691,449	14,937,131
Restricted	1,593,799	1,074,719	2,668,518
Unrestricted	935,118	4,894,058	5,829,176
TOTAL NET ASSETS	14,774,599	8,660,226	23,434,825
TOTAL LIABILITIES AND NET ASSETS	\$ 16,756,451	\$ 17,220,716	\$ 33,977,167

See accompanying notes.

CITY OF MT. VERNON, MISSOURI
STATEMENT OF ACTIVITIES
Year Ended June 30, 2006

Functions/Programs	Expenses	Program Revenues			Net (Expenses), Revenues and Changes in Net Assets			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	
Governmental activities:								
Administrative	\$ (169,458)	\$ 22,675	\$ -	\$ -	\$ (146,783)	\$ -	\$ (146,783)	
Police	(459,916)	46,799	-	-	(413,117)	-	(413,117)	
Municipal court	(24,222)	-	-	-	(24,222)	-	(24,222)	
Fire	(123,470)	-	46,769	-	(76,701)	-	(76,701)	
Animal control	(7,828)	200	-	-	(7,628)	-	(7,628)	
Parks	(224,213)	22,704	-	-	(201,509)	-	(201,509)	
Street	(782,630)	-	-	-	(782,630)	-	(782,630)	
Planning and zoning	(56,667)	-	-	-	(56,667)	-	(56,667)	
Transportation	(36,317)	8,194	9,129	24,095	5,101	-	5,101	
Airport	(20,223)	-	-	-	(20,223)	-	(20,223)	
Golf	(180,360)	111,475	-	-	(68,885)	-	(68,885)	
Industrial development	(4,125)	-	-	-	(4,125)	-	(4,125)	
Debt service	(120,482)	-	-	-	(120,482)	-	(120,482)	
TOTAL GOVERNMENTAL ACTIVITIES	(2,209,911)	212,047	55,898	24,095	(1,917,871)	-	(1,917,871)	
Business-type activities:								
Electric	(4,570,180)	5,687,082	-	-	-	1,116,902	1,116,902	
Water	(1,126,521)	541,189	-	-	-	(585,332)	(585,332)	
Sewer	(641,585)	568,804	-	-	-	(72,781)	(72,781)	
TOTAL BUSINESS-TYPE ACTIVITIES	(6,338,286)	6,797,075	-	-	-	458,789	458,789	
TOTAL GOVERNMENT	\$ (8,548,197)	\$ 7,009,122	\$ 55,898	\$ 24,095	(1,917,871)	458,789	(1,459,082)	
General Revenues:								
					1,101,520	-	1,101,520	
					164,877	-	164,877	
					24,494	-	24,494	
					95,953	-	95,953	
					153,212	171,653	324,865	
					32,332	-	32,332	
					81,106	(81,106)	-	
					(34,396)	-	(34,396)	
					1,619,098	90,547	1,709,645	
					Changes in Net Assets	(298,773)	549,336	250,563
					Net Assets, Beginning of year, as restated	15,073,372	8,110,890	23,184,262
					Net Assets, End of year	\$ 14,774,599	\$ 8,660,226	\$ 23,434,825

See accompanying notes.

CITY OF MT. VERNON, MISSOURI
BALANCE SHEET – GOVERNMENTAL FUNDS
June 30, 2006

	General Fund	Special Sales Tax Fund	Industrial Development Fund	Debt Service Fund	Total Governmental Funds
ASSETS					
Cash and cash equivalents - unrestricted	\$ 194,537	\$ 668,343	\$ 67,967	\$ -	\$ 930,847
Taxes receivable	149,300	72,651	-	-	221,951
Notes receivable	-	-	-	1,525,694	1,525,694
Due from other funds	76	53,000	-	-	53,076
Restricted cash and cash equivalents	601	-	-	52,325	52,926
Restricted investments	-	-	-	44,595	44,595
TOTAL ASSETS	<u>\$ 344,514</u>	<u>\$ 793,994</u>	<u>\$ 67,967</u>	<u>\$ 1,622,614</u>	<u>\$ 2,829,089</u>
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 8,654	\$ -	\$ -	\$ -	\$ 8,654
Accrued expenses	32,146	-	-	270	32,416
Court bonds payable	601	-	-	-	601
Due to other funds	-	164,853	-	5,960	170,813
Deferred revenue	-	-	-	22,585	22,585
TOTAL LIABILITIES	41,401	164,853	-	28,815	235,069
Fund Balances					
Reserved for:					
Debt Service	-	-	-	1,593,799	1,593,799
Unreserved, reported in:					
General Fund	303,113	-	-	-	303,113
Special Revenue Fund	-	629,141	67,967	-	697,108
TOTAL FUND BALANCES	<u>303,113</u>	<u>629,141</u>	<u>67,967</u>	<u>1,593,799</u>	<u>2,594,020</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 344,514</u>	<u>\$ 793,994</u>	<u>\$ 67,967</u>	<u>\$ 1,622,614</u>	<u>\$ 2,829,089</u>

See accompanying notes.

CITY OF MT. VERNON, MISSOURI
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF
 NET ASSETS
 June 30, 2006

Fund balance - total governmental funds	\$ 2,594,020
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds:	
Governmental capital assets	34,579,250
Less accumulated depreciation	<u>(20,481,075)</u>
	14,098,175
Compensated absences are not accrued in the governmental funds but rather is recognized as an expenditure when paid	(66,547)
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.	(21,141)
Adjustment of deferred revenue	22,585
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds	<u>(1,852,493)</u>
Net Assets of Governmental Activities	<u><u>\$ 14,774,599</u></u>

See accompanying notes.

CITY OF MT. VERNON, MISSOURI
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCES – GOVERNMENTAL
FUNDS
Year Ended June 30, 2006

	General Fund	Special Sales Tax	Industrial Development Fund	Debt Service Fund	Total Governmental Funds
REVENUES					
Taxes	\$ 828,981	\$ 557,863	\$ -	\$ -	\$ 1,386,844
Licenses and permits	20,310	-	-	-	20,310
Intergovernmental revenues	79,993	-	-	-	79,993
Charges for services	144,938	-	-	-	144,938
Fines and forfeitures	46,799	-	-	-	46,799
Miscellaneous	41,081	18,303	2,621	123,539	185,544
TOTAL REVENUES	1,162,102	576,166	2,621	123,539	1,864,428
EXPENDITURES					
Current					
Administrative	165,254	-	-	-	165,254
Police	461,099	-	-	-	461,099
Municipal Court	24,222	-	-	-	24,222
Fire	143,127	-	-	-	143,127
Animal control	7,828	-	-	-	7,828
Parks	262,985	-	-	-	262,985
Street	115,622	-	-	-	115,622
Planning and zoning	55,524	-	-	-	55,524
Transportation	59,818	-	-	-	59,818
Airport	11,594	-	-	-	11,594
Golf	232,923	-	-	-	232,923
Debt Service					
Principal and interest	-	-	-	261,243	261,243
TOTAL EXPENDITURES	1,539,996	-	-	261,243	1,801,239
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(377,894)	576,166	2,621	(137,704)	63,189
OTHER FINANCING SOURCES (USES)					
Proceeds from sale of building	-	-	-	128,000	128,000
Lease proceeds	64,000	-	-	-	64,000
Operating transfers in (out)	450,000	(426,760)	(25,414)	83,280	81,106
TOTAL OTHER FINANCING SOURCES (USES)	514,000	(426,760)	(25,414)	211,280	273,106
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	136,106	149,406	(22,793)	73,576	336,295
FUND BALANCE, July 1, as restated	167,007	479,735	90,760	1,520,223	2,257,725
FUND BALANCE, June 30	\$ 303,113	\$ 629,141	\$ 67,967	\$ 1,593,799	\$ 2,594,020

See accompanying notes.

CITY OF MT. VERNON, MISSOURI
 RECONCILIATION OF STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND
 BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
 Year Ended June 30, 2006

Net change in fund balances - total governmental funds \$ 336,295

Amounts reported for governmental activities in the statement
 of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement
 of activities the cost of these assets is allocated over their estimated useful lives on a
 straight line basis and reported as depreciation expense. The following is the detail
 of the amount by which capital outlays exceeded depreciation for the year.

Capital outlay	180,417
Sale of capital assets, net	(162,396)
Depreciation	(790,271)
	<u>(772,250)</u>

Some expenditures reported in the governmental funds represent the use
 of current financial resources and were recognized in the statement of
 activities when incurred. (4,234)

The issuance of long-term debt provides current financial resources to governmental
 funds. The repayment of the principal of long-term debt is a use of current financial
 resources of governmental funds. In the statement of activities, interest is accrued
 on outstanding bonds whereas in the governmental funds, an interest expenditure is
 reported when due. The following is the detail of the net effect of these differences.

Capital lease proceeds	(64,000)
Repayment of principal on bonds and leases	203,707
Interest	1,709
	<u>141,416</u>

Change in net assets of governmental activities \$ (298,773)

See accompanying notes.

CITY OF MT. VERNON, MISSOURI
STATEMENT OF NET ASSETS – PROPRIETARY FUNDS
June 30, 2006

ASSETS	Enterprise Funds			Total
	Electric Fund	Water Fund	Sewer Fund	
Current Assets				
Cash and cash equivalents	\$ 1,254,853	\$ 32,331	\$ 106,632	\$ 1,393,816
Investments	1,286,924	-	-	1,286,924
Utilities receivable, net	539,177	51,350	51,350	641,877
Interfund balances	-	(228,584)	346,321	117,737
Inventory	438,450	31,392	-	469,842
TOTAL CURRENT ASSETS	3,519,404	(113,511)	504,303	3,910,196
Restricted Assets				
Cash and cash equivalents	88,273	-	413,701	501,974
Investments	-	1,824,081	-	1,824,081
Deferred Bond Issuance Costs	-	287,586	116,809	404,395
Property, Plant and Equipment, Net of Accumulated Depreciation	2,154,641	3,973,928	4,451,501	10,580,070
TOTAL ASSETS	\$ 5,762,318	\$ 5,972,084	\$ 5,486,314	\$ 17,220,716
LIABILITIES				
Current Liabilities				
Accounts payable	\$ 341,210	\$ 44,747	\$ 3,336	\$ 389,293
Accrued expenses	2,437	8,154	2,550	13,141
Accrued interest payable	-	141,244	5,574	146,818
Utility deposits	88,273	-	-	88,273
Current maturities of long-term debt	-	173,621	110,000	283,621
TOTAL CURRENT LIABILITIES	431,920	367,766	121,460	921,146
Long-Term Liabilities				
Compensated absences payable	10,784	10,648	12,912	34,344
Revenue bonds payable	-	-	1,240,000	1,240,000
Certificates of participation payable	-	6,365,000	-	6,365,000
TOTAL LONG-TERM LIABILITIES	10,784	6,375,648	1,252,912	7,639,344
TOTAL LIABILITIES	442,704	6,743,414	1,374,372	8,560,490
NET ASSETS				
Invested in capital assets, net of related debt	2,154,641	(2,564,693)	3,101,501	2,691,449
Restricted	-	661,018	413,701	1,074,719
Unrestricted	3,164,973	1,132,345	596,740	4,894,058
TOTAL NET ASSETS	5,319,614	(771,330)	4,111,942	8,660,226
TOTAL LIABILITIES AND NET ASSETS	\$ 5,762,318	\$ 5,972,084	\$ 5,486,314	\$ 17,220,716

See accompanying notes.

CITY OF MT. VERNON, MISSOURI
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS – PROPRIETARY FUNDS
Year Ended June 30, 2006

	Enterprise Funds			Total
	Electric Fund	Water Fund	Sewer Fund	
OPERATING REVENUES				
Charges for services	\$ 5,686,806	\$ 536,817	\$ 568,604	\$ 6,792,227
Miscellaneous	276	4,372	200	4,848
TOTAL OPERATING REVENUES	5,687,082	541,189	568,804	6,797,075
OPERATING EXPENSES				
Salaries and wages	142,965	242,812	60,460	446,237
Employee benefits	14,210	33,885	11,759	59,854
Gas and oil	7,497	17,876	2,768	28,141
Materials and supplies	54,812	35,655	31,250	121,717
Insurance and taxes	47,444	64,547	23,514	135,505
Power purchased	4,036,347	-	38,071	4,074,418
Telephone and utilities	3,728	1,212	2,436	7,376
Repairs and maintenance	45,649	122,516	23,160	191,325
Professional fees	28,996	31,200	2,529	62,725
Other expenses	10,048	8,005	815	18,868
Depreciation	105,524	143,280	225,489	474,293
Administrative	72,960	60,300	69,684	202,944
TOTAL OPERATING EXPENSES	4,570,180	761,288	491,935	5,823,403
OPERATING INCOME (LOSS)	1,116,902	(220,099)	76,869	973,672
NONOPERATING REVENUES (EXPENSES)				
Interest income	87,813	70,228	13,612	171,653
Interest expense	-	(365,233)	(149,650)	(514,883)
TOTAL NONOPERATING REVENUES (EXPENSES)	87,813	(295,005)	(136,038)	(343,230)
INCOME (LOSS) BEFORE OPERATING TRANSFERS	1,204,715	(515,104)	(59,169)	630,442
OPERATING TRANSFERS IN (OUT)	(441,609)	248,895	111,608	(81,106)
NET INCOME (LOSS)	763,106	(266,209)	52,439	549,336
NET ASSETS, July 1, as restated	4,556,508	(505,121)	4,059,503	8,110,890
NET ASSETS, June 30	\$ 5,319,614	\$ (771,330)	\$ 4,111,942	\$ 8,660,226

See accompanying notes.

CITY OF MT. VERNON, MISSOURI
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS
Year Ended June 30, 2006

	Enterprise Funds			Total
	Electric Fund	Water Fund	Sewer Fund	
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	\$ 5,649,261	\$ 546,593	\$ 567,342	\$ 6,763,196
Cash paid to suppliers	(4,566,315)	(328,593)	(204,373)	(5,099,281)
Cash paid to employees	(170,098)	(273,207)	(76,135)	(519,440)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	912,848	(55,207)	286,834	1,144,475
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Operating transfer in (out)	(441,609)	248,895	111,608	(81,106)
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	(441,609)	248,895	111,608	(81,106)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Certificates of participation proceeds	-	3,835,000	-	3,835,000
Purchase of fixed assets	(129,664)	(349,824)	(59,282)	(538,770)
Payment of bond principal	-	-	(105,000)	(105,000)
Payment of certificates of participation	-	(3,695,000)	-	(3,695,000)
Payment of interest expense	-	(446,352)	(124,199)	(570,551)
Payment of principal on capital leases	-	(41,595)	-	(41,595)
NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(129,664)	(697,771)	(288,481)	(1,115,916)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received	87,813	70,228	13,612	171,653
Purchase of investments	(102,119)	-	-	(102,119)
Proceeds from maturity of investments	51,778	443,380	-	495,158
NET CASH PROVIDED BY INVESTING ACTIVITIES	37,472	513,608	13,612	564,692
NET INCREASE IN CASH AND CASH EQUIVALENTS	379,047	9,525	123,573	512,145
CASH AND CASH EQUIVALENTS, Beginning of year	964,079	22,806	396,760	1,383,645
CASH AND CASH EQUIVALENTS, End of year	1,343,126	32,331	520,333	1,895,790
LESS RESTRICTED CASH AND CASH EQUIVALENTS	88,273	-	413,701	501,974
UNRESTRICTED CASH AND CASH EQUIVALENTS	\$ 1,254,853	\$ 32,331	\$ 106,632	\$ 1,393,816
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:				
Operating income (loss)	\$ 1,116,902	\$ (220,099)	\$ 76,869	\$ 973,672
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	105,524	143,280	225,489	474,293
(Increase) decrease in:				
Utilities receivable	(42,309)	5,404	(1,462)	(38,367)
Inventory	(175,502)	(2,602)	-	(178,104)
Increase (decrease) in:				
Accounts payable	(83,332)	15,320	(10,146)	(78,158)
Accrued expenses	(12,038)	5,730	(3,711)	(10,019)
Meter deposits payable	4,488	-	-	4,488
Compensated absences payable	(885)	(2,240)	(205)	(3,330)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 912,848	\$ (55,207)	\$ 286,834	\$ 1,144,475

See accompanying notes.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City operates under a Board of Aldermen/Mayor form of government. The City provides the following services as authorized by its charter: public safety (police and fire), streets, culture-recreation, public improvements, planning, and general administrative services. Other services include water, sewer and electric operations.

The accounting policies of the City conform to accounting principles generally accepted in the United States of America as applicable to governments. In accordance with GASB-20 (Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting), the proprietary funds apply Financial Accounting Standards Board (FASB) pronouncements, Accounting Principles Board (APB) opinions and Accounting Research Bulletins (ARBs) issued on or before November 30, 1989, except those pronouncements that conflict with or contradict GASB pronouncements, in which case, GASB prevails. The following is a summary of the more significant policies.

Financial Reporting Entity

The financial reporting entity consists of (a) the primary government, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the primary government is not accountable, but for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. Financially accountable means the primary government is accountable for the component unit and the primary government is able to impose its will or the component unit may provide financial benefits or impose a financial burden on the primary government. In addition, component units can be other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The City is a primary government, which is governed by an elected Board of Aldermen. As required by accounting principles generally accepted in the United States of America, the City has evaluated the above criteria to determine whether any other entity meets the definition of a component unit and must be included in these financial statements. The City has determined that no other outside entity meets the above criteria and therefore, no other entity has been included as a component unit in the financial statements. In addition, the City is not aware of any entity for which the City would be considered as a component unit of that entity.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Government-Wide and Fund Financial Statements

The basic financial statements include both the government-wide (the Statement of Net Assets and the Statement of Activities) and fund financial statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide statements display information about the government as a whole. Interfund activity has been eliminated from these statements to minimize the duplication of internal activities. Governmental activities, which are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely on fees and charges for services for support.

In the government-wide Statement of Net Assets, both the governmental and business-type activities are consolidated and presented on the full accrual, economic resources basis of accounting. The consolidated presentation incorporates long-term assets and receivables as well as long-term debt and obligations, and it provides information to improve analysis and comparability.

The government-wide Statement of Activities presents a comparison between direct expenses and program revenues for each function of the City's governmental and business-type activities. Direct expenses are those that are specifically associated with a program or a function. Program revenues include charges for goods or services offered by the programs and grants and contributions that are restricted to meet operating and capital expenses of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

FUND FINANCIAL STATEMENTS

Separate fund financial statements report information on the City's governmental and proprietary funds. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Governmental fund financial statements use the current financial resources measurement focus and the modified accrual basis of accounting. Consequently, the emphasis on near-term inflows and outflows of resources do not present the long-term impact of transactions. Conversely, the proprietary fund statements incorporate the accrual basis of accounting and focus on the change in total economic resources. This presentation records long-term assets and liabilities, and recognizes revenues and expenses when transactions occur, regardless of their impact on the flow of cash. Since the accounting differs significantly between the governmental funds and the proprietary funds, it is necessary to convert the governmental fund data to arrive at the government-wide financial statements. Therefore, reconciliations have been provided following the Governmental Funds Balance Sheet and the Statement of Revenues, Expenses and Changes in Fund Balance identifying categories that required conversion from the fund statements.

The City reports the following major governmental funds:

General Fund: The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Sales Tax Fund: The Special Sales Tax Fund of the City is used to account for the proceeds of specific revenue sources that are restricted to expenses for specified purposes.

Industrial Development Fund: The Industrial Development Fund is used to account for resources restricted for industrial development.

Debt Service Fund: The Debt Service Fund is used to account for the accumulation of resources for, and the payment of the 1992 General Obligation Bonds and the 1995 General Obligation Industrial Bonds.

The City reports the following major proprietary funds:

Electric Fund: The Electric Fund accounts for the activities and capital improvements of the City's electric operations.

Water Fund: The Water Fund accounts for the activities and capital improvements of the City's water operations.

Sewer Fund: The Sewer Fund accounts for the activities and capital improvements of the City's sewer operations.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital Assets

Capital assets include land, buildings, improvements, equipment, and infrastructure assets (e.g., roads, bridges, storm sewers, and similar items) and are included in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets, excluding land, are defined by the City as assets with a cost of \$5,000 or greater and an estimated useful life of at least five years. All land purchases are capitalized regardless of cost. All purchased fixed assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Historically, governmental infrastructure assets have not been capitalized and reported in the financial statements. In conformity with GASB 34, infrastructure, such as streets and storm sewers, has been capitalized. Additionally, the City elected to depreciate its infrastructure assets. Depreciation is provided in amounts sufficient to relate the cost of the depreciable assets to operations over their estimated service lives on the straight-line basis. The service lives by type of asset are as follows:

Land improvements	20 years
Electric plant	30 years
Water and sewer systems	30-50 years
Buildings and improvements	50 years
Major moveable equipment	7-15 years
Infrastructure	50 years

Expenses for maintenance and repairs are charged to expense; renewals and betterments are capitalized.

Pooled Cash and Cash Equivalents

The City pools cash resources of its various funds in order to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. The balance in the pooled cash account is available to meet current operating requirements.

Unreserved Fund Equity

The unreserved fund balances for governmental funds represent the amount available for budgeting future operations.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Inventories

Inventories are stated at cost using first in, first out method.

Interest Capitalization

Interest expense that relates to the cost of acquiring or constructing fixed assets in the Enterprise Funds is capitalized. Interest expense incurred in connection with construction of capital assets has been reduced by interest earned on the investment of funds borrowed for construction in accordance with Financial Accounting Standards Board (FASB) Statement No. 62 - *Capitalization of Interest Cost in Situations Involving Certain Tax Exempt Borrowings and Certain Gifts and Grants*. There was no interest capitalized during the current fiscal year.

Net Assets

In the government-wide and proprietary fund financial statements, equity is displayed in three components as follows:

Invested in Capital Assets, Net of Related Debt – This consists of capital assets, net of accumulated depreciation, less the outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted – This consists of net assets that are legally restricted by outside parties or by law through constitutional provisions or enabling legislation.

Unrestricted – This consists of net assets that do not meet the definition of restricted or invested in capital assets, net of related debt.

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the City first applies restricted net assets.

CITY OF MT. VERNON, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2006

NOTE B – CASH AND CASH EQUIVALENTS

State statutes require that the City’s deposits be insured or collateralized in the name of the City by the trust department of a bank that does not hold the collateralized deposits. As of June 30, 2006 all bank balances on deposit are entirely insured or collateralized.

NOTE C – INVESTMENTS

Investments of the City as of June 30, 2006 consist of the following:

Investment Type	Maturity	Total
Certificates of Deposit	10/6/06 - 3/18/2010	\$ 995,119
Edward Jones Money Market Funds	N/A	12,806
Federal Home Loan Mortgage Notes	8/15/2014	304,000
Guaranteed Investment Contracts	N/A	19,594
Federated Treasury Obligation Fund	N/A	1,624,081
First Bank of Missouri Money Market Account	N/A	200,000
		\$ 3,155,600

Custodial Risk

For an investment, custodial risk is the risk that, in the event of failure of the counterparty, the City will not be able to recover the value of its investment. The City’s Certificates of Deposit are entirely insured or collateralized by a trust department of a bank that does not hold the collateralized deposits. The city-guaranteed investment contracts are invested under the State Revolving Fund Program and are required to be collateralized in the amount of 105% of the value of the investment.

CITY OF MT. VERNON, MISSOURI
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE C – INVESTMENTS (continued)

Credit Risk

As of June 30, 2006 the City's investments in the Fidelity Treasury Fund were rated AAAM by Standard and Poor's. The City's investments in Federal Home Loan Mortgage Notes were rated AAA by Standard and Poor's. The Edward Jones Money Market Funds, Federated Treasury Obligation Fund, and First Bank of Missouri Money Market Account are not rated.

NOTE D – RESTRICTED ASSETS

Governmental Activities

Cash has been restricted in the amount of \$601 for the outstanding court bonds. In the Debt Service Fund, cash has been restricted in the amount of \$52,325 and investments have been restricted in the amount of \$44,595 for future debt service obligations.

Business-Type Activities

The 1995 and 1998 Combined Waterworks and Sewerage System revenue bond ordinances and the 2005 and 2003 Certificates of Participation ordinances established amounts required to be deposited in certain sinking and reserve funds. As of June 30, 2006 the required deposits for the 1995 and 1998 Combined Waterworks and Sewerage System revenue bond funds have been made. As of June 30, 2006 the City has made the required deposits for the 2005 and 2003 Certificates of Participation accounts. These special reserves consist of cash and cash equivalents and are reported in the accompanying balance sheet as restricted cash and cash equivalents and restricted net assets. Restricted cash and cash equivalents also include cash and cash equivalents restricted for customer meter deposits. These restrictions are as follows:

CITY OF MT. VERNON, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2006

NOTE D – RESTRICTED ASSETS (continued)

	<u>Restricted Cash and Investments</u>	<u>Restricted Net Assets</u>
SEWER FUND		
1995 Waterworks and Sewerage System Bonds		
Principal and Interest Fund	\$ 65,348	\$ 65,348
Debt Service Reserve Fund	77,600	77,600
Depreciation and Replacement Fund	99,604	99,604
1998 Waterworks and Sewerage System Bonds		
Principal and Interest Fund	43,265	43,265
Debt Service Reserve Fund	49,677	49,677
Depreciation and Replacement Fund	<u>78,207</u>	<u>78,207</u>
	413,701	413,701
WATER FUND		
2002 Certificates of Participation		
Debt Service Reserve Fund	300	300
COP Project Fund	73,515	-
Principal and Interest Fund	3,642	3,642
2003 Certificates of Participation		
COP Project Fund	1,089,532	-
Debt Service Reserve Fund	280,000	280,000
Principal and Interest Fund	5,832	5,832
2005 Certificates of Participation		
COP Project Fund	16	-
Debt Service Reserve Fund	<u>371,244</u>	<u>371,244</u>
	1,824,081	661,018
ELECTRIC FUND		
Customer Deposits	<u>88,273</u>	-
	<u>\$ 2,326,055</u>	<u>\$ 1,074,719</u>

CITY OF MT. VERNON, MISSOURI
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE E – LONG-TERM DEBT – GOVERNMENTAL ACTIVITIES

Long-term debt for governmental activities at June 30, 2006 consists of the 1992 General Obligation Bonds, the 1995 General Obligation Industrial Bonds, and two Capital Lease obligations payable.

In 1992, the City issued \$790,000 in general obligation bonds. The bonds bear interest at 4.50% to 6.55%. Interest payments are due semi-annually on July 1 and January 1 of each year. The annual debt service requirements to amortize the principal on the 1992 General Obligation Bonds outstanding at June 30, 2006 are listed in the table below:

Year Ended June 30,	Amount Due		
	Principal	Interest	Total
2007	\$ 50,000	\$ 23,475	\$ 73,475
2008	55,000	20,250	75,250
2009	60,000	16,703	76,703
2010	60,000	12,772	72,772
2011	65,000	8,843	73,843
2012	70,000	4,585	74,585
	<u>\$ 360,000</u>	<u>\$ 86,628</u>	<u>\$ 446,628</u>

In 1995, the City issued \$2,200,000 in General Obligation Industrial Bonds. The bonds bear interest at 4.60% to 6.40%. Interest payments are due semi-annually on June 1 and December 1 of each year. The annual debt service requirements to amortize the principal on the 1995 General Obligation Industrial Bonds outstanding at June 30, 2006 are listed in the table below:

Year Ended June 30,	Amount Due		
	Principal	Interest	Total
2007	\$ 100,000	\$ 84,980	\$ 184,980
2008	105,000	78,625	183,625
2009	115,000	71,805	186,805
2010	120,000	64,520	184,520
2011	130,000	56,640	186,640
2012	135,000	48,160	183,160
2013	145,000	39,200	184,200
2014	155,000	29,600	184,600
2015	385,000	12,320	397,320
	<u>\$ 1,390,000</u>	<u>\$ 485,850</u>	<u>\$ 1,875,850</u>

CITY OF MT. VERNON, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2006

NOTE E – LONG-TERM DEBT – GOVERNMENTAL ACTIVITIES (continued)

Capital Lease Payable- Golf Course: During the year ended June 30, 2004, the City entered into a lease purchase obligation to acquire property for the golf course in the amount of \$197,200. The lease requires annual payments of \$50,000 plus interest at 6.00%.

Year Ended June 30,	
<u>2007</u>	\$ 50,032
	TOTAL MINIMUM LEASE PAYMENTS 50,032
	LESS AMOUNT REPRESENTING INTEREST (2,832)
	NET LEASE PAYMENTS <u>\$ 47,200</u>

Capital Lease Payable- Fire Truck: During the year ended June 30, 2006, the City entered into a lease purchase obligation to finance the purchase of a 1992 Ford L-9000 Rescue Vehicle in the amount of \$64,000. The lease requires annual payments of \$13,927 plus interest at 5.62%.

The following is a schedule of future minimum lease payments under the leases (assuming noncancellation):

Year Ended June 30,	
<u>2007</u>	\$ 13,927
2008	13,927
2009	13,927
2010	<u>13,927</u>
	TOTAL MINIMUM LEASE PAYMENTS 55,708
	LESS AMOUNT REPRESENTING INTEREST (5,415)
	NET LEASE PAYMENTS <u>\$ 50,293</u>

Although the lease agreements provide for cancellation of the leases at the City's option on the renewal date each year, the City does not foresee exercising its option to cancel. Therefore, these leases are accounted for as noncancellable leases in accordance with Statement of Financial Accounting Standards 13, "Accounting for Leases."

CITY OF MT. VERNON, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2006

NOTE E – LONG-TERM DEBT – GOVERNMENTAL ACTIVITIES (continued)

The following is a summary of the changes in Governmental Activities Long-Term Debt for the year ended June 30, 2006:

	Balance June 30, 2005	Additions	Retirements	Balance June 30, 2006
1992 General Obligation Bonds	\$ 410,000	\$ -	\$ 50,000	\$ 360,000
1995 General Obligation Industrial Bonds	1,485,000	-	90,000	1,395,000
Capital Leases Payable - golf course	97,200	-	50,000	47,200
Capital Leases Payable - fire truck	-	64,000	13,707	50,293
	<u>\$ 1,992,200</u>	<u>\$ 64,000</u>	<u>\$ 203,707</u>	<u>\$ 1,852,493</u>

NOTE F – LONG-TERM DEBT – BUSINESS-TYPE ACTIVITIES

The business-type activities long-term debt at June 30, 2006 consists of 1995 and 1998 Combined Waterworks and Sewerage System revenue bonds, the 2003 and 2005 Certificates of Participation and two lease purchase obligations payable.

Water Fund

During 2005, the City issued \$3,835,000 in Refunding Certificates of Participation to advance refund the Series 2002 Certificates of Participation. The Series 2005 certificates bear interest at 4.19%. Interest payments are due in semi-annual installments on March 1 and September 1 of each year. The annual debt service requirements to amortize the principal on the 2005 Certificates of Participation outstanding at June 30, 2006 are listed in the table below:

CITY OF MT. VERNON, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2006

NOTE F – LONG-TERM DEBT – BUSINESS-TYPE ACTIVITIES

Year Ended June 30,	Amount Due		
	Principal	Interest	Total
2007	\$ 50,000	\$ 210,423	\$ 260,423
2008	50,000	155,659	205,659
2009	50,000	153,563	203,563
2010	55,000	151,469	206,469
2011	55,000	149,164	204,164
2012	55,000	146,860	201,860
2013	130,000	144,555	274,555
2014	130,000	139,108	269,108
2015	230,000	133,661	363,661
2016	340,000	124,024	464,024
2017	360,000	109,778	469,778
2018	375,000	94,694	469,694
2019	395,000	78,981	473,981
2020	415,000	62,431	477,431
2021	430,000	45,042	475,042
2022	645,000	27,025	672,025
	<u>\$ 3,765,000</u>	<u>\$ 1,926,437</u>	<u>\$ 5,691,437</u>

During 2003, the City issued \$2,800,000 in Certificates of Participation (COPS). The certificates bear interest at 2.00% to 5.10%. Interest payments are due in semi-annual installments on February 1 and August 1 of each year. The annual debt service requirements to amortize the principal on the 2003 Certificates of Participation outstanding at June 30, 2006 are listed in the table below:

CITY OF MT. VERNON, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2006

NOTE F – LONG-TERM DEBT – BUSINESS-TYPE ACTIVITIES (continued)

Year Ended June 30,	Amount Due		
	Principal	Interest	Total
2007	\$ 80,000	\$ 127,512	\$ 207,512
2008	75,000	125,387	200,387
2009	80,000	122,963	202,963
2010	80,000	120,263	200,263
2011	85,000	117,269	202,269
2012	90,000	113,875	203,875
2013	90,000	110,185	200,185
2014	100,000	106,145	206,145
2015	10,000	103,745	113,745
2016	-	103,495	103,495
2017	85,000	101,370	186,370
2018	85,000	97,120	182,120
2019	90,000	92,745	182,745
2020	90,000	88,245	178,245
2021	100,000	83,495	183,495
2022	95,000	78,620	173,620
2023	590,000	61,200	651,200
2024	905,000	23,078	928,078
	<u>\$ 2,730,000</u>	<u>\$ 1,776,712</u>	<u>\$ 4,506,712</u>

During 2003, the City entered into a lease purchase agreement with Case Credit to finance the purchase of an excavator from Potter Equipment Co., Inc. The lease agreement requires monthly payments of \$2,185 for 44 months including interest at 4.75%.

During 2003, the City entered into a lease purchase agreement with Case Credit to finance the purchase of a backhoe from Potter Equipment Co., Inc. The lease agreement requires monthly payments of \$1,544 for 45 months including interest at 4.75%.

CITY OF MT. VERNON, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2006

NOTE F – LONG-TERM DEBT – BUSINESS-TYPE ACTIVITIES (continued)

The City's lease/purchase agreements provide for cancellation of the leases at the City's option on the renewal dates each year per state statute, however the City does not foresee exercising its options to cancel. Therefore, these leases are accounted for as noncancellable leases in accordance with Statement of Financial Accounting Standards 13, "Accounting for Leases."

The following is a schedule by year of the future minimum lease payments still remaining as of June 30, 2006:

Year Ended June 30,	Excavator Lease Purchase	Backhoe Lease Purchase	Total
2007	\$ 26,216	\$ 18,528	\$ 44,744
Total Minimum Lease Payments	26,216	18,528	44,744
Less Amount Representing Interest	(655)	(469)	(1,124)
Principal Balance, June 30, 2006	\$ 25,561	\$ 18,059	\$ 43,620

Sewer Fund

Sewer Fund long-term debt consists of the 1995 Combined Waterworks and Sewerage System Refunding Bonds and the 1998 Combined Waterworks and Sewerage System Refunding Revenue Bonds.

In 1995, the City issued \$776,000 in Combined Waterworks and Sewerage System Refunding Bonds. The bonds bear interest at 4.00% to 5.50%. Interest payments are due semi-annually on June 1 and December 1 of each year. The annual debt service requirements to amortize the principal on the 1995 revenue bonds outstanding at June 30, 2006 are listed in the table below:

Year Ended June 30,	Amount Due		
	Principal	Interest	Total
2007	\$ 90,000	\$ 2,475	\$ 92,475
	\$ 90,000	\$ 2,475	\$ 92,475

CITY OF MT. VERNON, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2006

NOTE F – LONG-TERM DEBT – BUSINESS-TYPE ACTIVITIES (continued)

In 1998, the City issued \$1,380,000 in Combined Waterworks and Sewerage System Refunding Bonds. The bonds bear interest at 4.25% to 5.00%. Interest payments are due semi-annually on June 1 and December 1 of each year. Annual debt service requirements to amortize the principal on the 1998 revenue bonds outstanding at June 30, 2006 are listed in the table below:

Year Ended June 30,	Amount Due		
	Principal	Interest	Total
2007	\$ 20,000	\$ 61,480	\$ 81,480
2008	120,000	58,260	178,260
2009	125,000	52,625	177,625
2010	135,000	46,375	181,375
2011	140,000	39,500	179,500
2012	145,000	32,375	177,375
2013	155,000	24,875	179,875
2014	160,000	17,000	177,000
2015	170,000	8,750	178,750
2016	90,000	2,250	92,250
	<u>\$ 1,260,000</u>	<u>\$ 343,490</u>	<u>\$ 1,603,490</u>

The following table is a summary of the changes in the long-term debt – business-type activities for the year ended June 30, 2006:

	Balance June 30, 2005	Additions	Retirements	Balance June 30, 2006
SEWER FUND				
Revenue Bonds Payable				
1995 Revenue Bonds	\$ 175,000	\$ -	\$ 85,000	\$ 90,000
1998 Revenue Bonds	1,280,000	-	20,000	1,260,000
	<u>\$ 1,455,000</u>	<u>\$ -</u>	<u>\$ 105,000</u>	<u>\$ 1,350,000</u>

CITY OF MT. VERNON, MISSOURI
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE F – LONG-TERM DEBT – BUSINESS-TYPE ACTIVITIES (continued)

	Balance June 30, 2005	Additions	Retirements	Balance June 30, 2006
WATER FUND				
COP Payable				
2002 COP Issue	\$ 3,555,000	\$ -	\$ 3,555,000	\$ -
2003 COP Issue	2,800,000	-	70,000	2,730,000
2005 COP Issue	-	3,835,000	70,000	3,765,000
Leases Payable	85,215	-	41,594	43,621
	<u>6,440,215</u>	<u>3,835,000</u>	<u>3,736,594</u>	<u>6,538,621</u>
TOTAL	<u><u>\$ 7,895,215</u></u>	<u><u>\$ 3,835,000</u></u>	<u><u>\$ 3,841,594</u></u>	<u><u>\$ 7,888,621</u></u>

NOTE G – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006 was as follows:

	Balance June 30, 2005	Additions	Deletions	Balance June 30, 2006
GOVERNMENTAL ACTIVITIES				
Non-depreciable Capital Assets				
Land	\$ 247,200	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	\$ 247,200
Depreciable Capital Assets				
Land improvements	334,282	\$ 5,515	\$ 125,000	214,797
Building and improvements	795,424	43,681	100,000	739,105
Major moveable equipment	703,151	131,221	-	834,372
Infrastructure	32,543,776	-	-	32,543,776
Total Depreciable Capital Assets	34,376,633	<u><u>\$ 180,417</u></u>	<u><u>\$ 225,000</u></u>	34,332,050
Less Accumulated Depreciation				
Land improvements	65,397	\$ 13,865	\$ 27,604	51,658
Building and improvements	226,309	14,186	35,000	205,495
Major moveable equipment	259,124	111,344	-	370,468
Infrastructure	19,202,578	650,876	-	19,853,454
Total Accumulated Depreciation	19,753,408	<u><u>\$ 790,271</u></u>	<u><u>\$ 62,604</u></u>	20,481,075
Total Depreciable Capital Assets, net	<u>14,623,225</u>			<u>13,850,975</u>
Total Governmental Activities Capital Assets, net	<u><u>\$ 14,870,425</u></u>			<u><u>\$ 14,098,175</u></u>

CITY OF MT. VERNON, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2006

NOTE G – CAPITAL ASSETS (continued)

Depreciation expense was charged to functions as follows:

Administrative	\$ 2,561
Police	14,001
Fire	58,956
Parks	19,525
Street	666,712
Planning and zoning	1,143
Transportation	7,640
Airport	8,629
Golf	6,979
Industrial development	4,125
	<u>\$ 790,271</u>

BUSINESS-TYPE ACTIVITIES	Balance June 30, 2005	Additions	Deletions	Balance June 30, 2006
Sewer Fund				
Non-Depreciable Capital Assets				
Land	\$ 53,808	\$ -	\$ -	\$ 53,808
Construction in Progress	-	47,171	-	47,171
	<u>53,808</u>	47,171	-	100,979
Depreciable Capital Assets				
Sewer plant	9,598,777	<u>\$ 12,110</u>	<u>\$ -</u>	9,610,887
Less Accumulated Depreciation				
Sewer plant	<u>5,034,876</u>	<u>\$ 225,489</u>	<u>\$ -</u>	<u>5,260,365</u>
Depreciable Capital Assets, net	4,563,901			4,350,522
Electric Fund				
Depreciable Capital Assets:				
Electric plant	3,547,978	<u>\$ 129,665</u>	<u>\$ -</u>	3,677,643
Less Accumulated Depreciation				
Electric plant	<u>1,417,478</u>	<u>\$ 105,524</u>	<u>\$ -</u>	<u>1,523,002</u>
Depreciable Capital Assets, net	2,130,500			2,154,641
Water Fund				
Depreciable Capital Assets:				
Water plant	4,204,217	<u>\$ 349,824</u>	<u>\$ -</u>	4,554,041
Less Accumulated Depreciation				
Water plant	<u>436,833</u>	<u>\$ 143,280</u>	<u>\$ -</u>	<u>580,113</u>
Depreciable Capital Assets, net	<u>3,767,384</u>			<u>3,973,928</u>
Total Capital Assets - Business-Type Activities, net	<u>\$ 10,515,593</u>			<u>\$ 10,580,070</u>

NOTE H – EMPLOYEE PENSION PLAN

Plan Description

The City of Mt. Vernon participates in the Missouri Local Government Employees Retirement System (LAGERS), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for local government entities in Missouri.

LAGERS is a defined benefit pension plan which provides retirement, disability, and death benefits to plan members and beneficiaries. LAGERS was created and is governed by statute, section RSMo. 70.600 - 70.755. As such, it is the system's responsibility to administer the law in accordance with the expressed intent of the General Assembly. The plan is qualified under the Internal Revenue Code Section 401a and it is tax exempt.

The Missouri Local Government Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to LAGERS, P.O. Box 1665, Jefferson City, MO 65102 or by calling 1-800-447-4334.

Funding Status

The City of Mt. Vernon's full-time employees do not contribute to the pension plan. The political subdivision is required to contribute at an actuarially determined rate; the current rate is 10.5% (general) and 8.6% (police) of annual covered payroll. The contribution requirements of plan members are determined by the governing body of the political subdivision. The contribution provisions of the political subdivision are established by state statute.

Annual Pension Cost

For 2006, the political subdivision's annual pension cost of \$91,601 was equal to the required and actual contributions. The required contribution was determined as part of the February 29, 2004 and/or February 28, 2005 annual actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 7.5% per year, compounded annually, (b) projected salary increases of 4.0% per year, compounded annually, attributable to inflation, (c) additional projected salary increases ranging from 0.0% to 6.0% per year, depending on age and division, attributable to seniority/merit, (d) pre-retirement mortality based on the RP-2000 Combined Healthy Table set back 0 years for men and 0 years for women and (e) post-retirement mortality based on the 1971 Group Annuity Mortality table projected to 2000 set back 1 year for men and 7 years for women. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The amortization period at February 28, 2006 was 15 years.

CITY OF MT. VERNON, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2006

NOTE H – EMPLOYEE PENSION PLAN (continued)

Three-Year Trend Information				
Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation	
06/30/04	\$ 102,453	100%	\$ -	-
06/30/05	108,655	100%	-	-
06/30/06	91,601	100%	-	-

NOTE I – RISK MANAGEMENT

The City is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City has transferred its risk by obtaining coverage from a public self-insured insurance pool. In addition, it has effectively managed risk through various employee education and prevention programs. There has been no significant reduction in insurance coverage from the previous year.

NOTE J – NOTE RECEIVABLE ON INDUSTRIAL BONDS AND PROPERTY SALE

In 1995, the City issued general obligation industrial bonds in the amount of \$2,200,000. The proceeds were loaned to Reyco Industries, Inc. for industrial development in exchange for a note receivable being held in a trust administered by the Bank of New York. The trust receives payments on the note from Reyco Industries, Inc. and then disburses the bond payments. \$1,400,000 has been recorded in the Debt Service Fund for the balance remaining on the note receivable.

In 2006, the City sold an industrial property and owner-financed the purchase price of \$128,000. The City will earn 5.75% on this note receivable. At June 30, 2006, \$125,694 has been recorded in the Debt Service Fund for the balance remaining on the note receivable.

CITY OF MT. VERNON, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2006

NOTE K – DEFERRED DEBT ISSUE COSTS

During 2003 and 2005, the City issued Waterworks Certificates of Participation and during 1995 and 1998, the City issued Combined Waterworks and Sewerage System Refunding Revenue Bonds. The issue costs will be amortized as an adjustment to interest expense using straight line amortization over the life of the bonds and certificates.

These deferred debt issue costs are presented net of current amortization as follows:

	Unamortized Debt Issue Costs		Current Amortization	Unamortized Debt Issue Costs
	June 30, 2005	Additions		June 30, 2006
Sewer Fund	\$ 136,686	\$ -	\$ 19,877	\$ 116,809
Water Fund	184,387	121,033	17,834	287,586
	<u>\$ 321,073</u>	<u>\$ 121,033</u>	<u>\$ 37,711</u>	<u>\$ 404,395</u>

NOTE L – INTERNAL BALANCES

Internal balances as of June 30, 2006 consisted of the following:

	General Fund	Special Sales Tax Fund	Debt Service Fund	Water Fund	Sewer Fund
Internal balances	<u>\$ 76</u>	<u>\$ (111,853)</u>	<u>\$ (5,960)</u>	<u>\$ (228,584)</u>	<u>\$ 346,321</u>

During the course of its operations, the City has numerous transactions between funds to finance operation, provide services, construct assets and service debt. To the extent that certain transactions between funds had not been paid or received as of June 30, 2006, balances of interfund amounts receivable or payable have been recorded within the fund financial statements.

CITY OF MT. VERNON, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2006

NOTE M – CLAIMS AND ADJUSTMENTS

The City participates in a number of federal and state programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants are subject to audit by the appropriate grantor government. If expenditures are disallowed due to noncompliance with grant program regulation, the City may be required to reimburse the grantor government. As of June 30, 2006, expenditures have not been audited by grantor governments, but the City believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on any of the individual government funds or the overall financial position of the City.

NOTE N – INTERFUND TRANSFERS

Transfers between funds of the City for the year ended June 30, 2006 were as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 450,000	\$ -
Special Sales Tax Fund	-	426,760
Industrial Development Fund	-	25,414
Debt Service Fund	83,280	-
Electric Fund	-	441,609
Water Fund	248,895	-
Sewer Fund	111,608	-
	<u>\$ 893,783</u>	<u>\$ 893,783</u>

Transfers are used to (1) move receipts from the fund that statute or budget requires to collect them to the fund that statute or budget requires to disburse them, and (2) use unrestricted receipts in the Enterprise Funds and General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

CITY OF MT. VERNON, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2006

NOTE O – DEBT DEFEASANCE

On November 11, 2005, the City of Mt. Vernon issued \$3,835,000 in Series 2005 Certificates of Participation with an interest rate of 4.19% to advance refund \$3,525,000 of outstanding 2002 Certificates of Participation with interest rates ranging from 4.00% to 5.60% on March 1, 2013. The net proceeds were deposited into an irrevocable trust with an escrow agent to provide for all future debt service payments on the 2002 Certificates of Participation. As a result, the 2002 Certificates of Participation is considered to be defeased and the liability for that lease has been removed from the Water Fund. At year end, the balance in the escrow account was \$3,636,802 and the outstanding principal was \$3,525,000.

NOTE P – RESTATEMENT OF BEGINNING FUND BALANCE / NET ASSETS

General Fund

Fund Balance, as previously stated, June 30, 2005	\$ 152,007
Cash understatement	15,000
Fund Balance, as restated, July 1, 2005	<u>\$ 167,007</u>

Debt Service Fund

Fund Balance, as previously stated, June 30, 2005	\$ 1,486,998
Cash understatement	33,225
Fund Balance, as restated, July 1, 2005	<u>\$ 1,520,223</u>

Electric Fund

Net Assets, as previously stated, June 30, 2005	\$ 4,595,646
Cash understatement	169,615
Utilities receivable	124,172
Meter deposits payable	71,389
Compensated absences	(11,669)
Accounts Payable	(392,645)
Net Assets, as restated, July 1, 2005	<u>\$ 4,556,508</u>

CITY OF MT. VERNON, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2006

NOTE P – RESTATEMENT OF BEGINNING FUND BALANCE / NET ASSETS (continued)

Water Fund

Net Assets, as previously stated, June 30, 2005	\$ (619,733)
Cash understatement	115,675
Utilities receivable	11,825
Compensated absences	(12,888)
Net Assets, as restated, July 1, 2005	<u>\$ (505,121)</u>

Sanitary Sewer Fund

Net Assets, as previously stated, June 30, 2005	\$ 3,668,149
Utilities receivable	11,826
Accounts payable	392,645
Compensated absences	(13,117)
Net Assets, as restated, July 1, 2005	<u>\$ 4,059,503</u>

Governmental Activities

Net Assets, as previously stated, June 30, 2005	\$ 15,110,309
Cash understatement	48,225
Interest payable	(22,850)
Compensated absences	(62,313)
Net Assets, as restated, July 1, 2005	<u>\$ 15,073,371</u>

Business-Type Activities

Net Assets, as previously stated, June 30, 2005	\$ 7,644,062
Cash understatement	285,290
Utilities receivable	147,823
Meter deposits payable	71,389
Compensated absences	(37,674)
Net Assets, as restated, July 1, 2005	<u>\$ 8,110,890</u>

NOTE Q – CERTIFICATES OF PARTICIPATION REFUNDING

On November 11, 2005, the City issued \$3,835,000 in Series 2005 Certificates of Participation with an interest rate of 4.19%. The City issued the Certificates of Participation to create advance refunding on March 1, 2013 of the outstanding portion of the Series 2002 Certificates of Participation with interest rates between 4.00% and 5.60%. The City used the net proceeds to purchase U.S. Government securities. These securities were deposited in an irrevocable trust to refund the 2002 Certificates of Participation.

As a result of the refunding, the City reduced its total debt service requirements by \$342,645, which resulted in an economic gain (difference between the present value of the debt service payment on old and new debt) of \$214,027

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF MT. VERNON, MISSOURI
 SCHEDULE OF FUNDING PROGRESS
 Year Ended June 30, 2006

Missouri Local Government Employees Retirement System (LAGERS)

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Entry Age Actuarial Accrued Liability	(b-a) Unfunded Accrued Liability (UAL)	(a/b) Funded Ratio	(c) Annual Covered Payroll	[(b-a)/c] UAL as a Percentage of Covered Payroll
02/29/04	\$ 1,614,862	\$ 1,821,221	\$ 206,359	89%	\$ 1,137,276	18%
02/28/05	1,781,484	1,906,542	125,058	93%	1,018,889	12%
02/28/06	1,365,801	1,575,070	209,269	87%	912,997	23%

Note: The above assets and actuarial accrued liability do not include the assets and present value of benefits associated with the Benefit Reserve Fund and the Casualty Reserve Fund. The actuarial assumptions were changed in conjunction with the February 28, 2006 annual actuarial valuations. For a complete description of the actuarial assumptions used in the annual valuations, please contact the LAGERS office in Jefferson City.

CITY OF MT. VERNON, MISSOURI
 BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
 Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance With Final Budget
REVENUES				
Taxes				
Ad valorem taxes	\$ 22,700	\$ 22,700	\$ 24,494	\$ 1,794
City sales tax	508,000	508,000	543,657	35,657
Motor vehicle tax	137,000	137,000	164,877	27,877
Utility franchise tax	97,000	97,000	95,953	(1,047)
	<u>764,700</u>	<u>764,700</u>	<u>828,981</u>	<u>64,281</u>
Licenses and Permits				
Occupational licenses	3,000	3,000	5,694	2,694
Building permits	8,000	8,000	14,616	6,616
	<u>11,000</u>	<u>11,000</u>	<u>20,310</u>	<u>9,310</u>
Intergovernmental Revenues				
Grants	40,000	40,000	79,993	39,993
Charges for Services				
Taxi	10,940	10,940	8,194	(2,746)
Animal control	120	120	200	80
Pool	6,500	6,500	14,732	8,232
Park	6,500	6,500	7,972	1,472
Golf fees	100,000	100,000	111,475	11,475
Cemetery	1,000	1,000	2,365	1,365
	<u>125,060</u>	<u>125,060</u>	<u>144,938</u>	<u>19,878</u>
Fines and forfeitures				
City court fines	34,000	34,000	46,799	12,799
Miscellaneous				
Rent income	8,860	8,860	9,680	820
Interest	3,300	3,300	8,749	5,449
Donations	5,600	5,600	5,445	(155)
Other	5,850	5,850	17,207	11,357
	<u>23,610</u>	<u>23,610</u>	<u>41,081</u>	<u>17,471</u>
TOTAL REVENUES	998,370	998,370	1,162,102	163,732

CITY OF MT. VERNON, MISSOURI
 BUDGETARY COMPARISON SCHEDULE – GENERAL FUND (CONTINUED)
 Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance With Final Budget
EXPENDITURES				
Current				
Administrative	403,495	403,495	165,254	238,241
Police	471,144	471,144	461,099	10,045
Municipal Court	22,561	22,561	24,222	(1,661)
Fire	58,200	58,200	143,127	(84,927)
Animal control	8,393	8,393	7,828	565
Parks	250,820	250,820	262,985	(12,165)
Street	178,283	178,283	115,622	62,661
Planning and zoning	50,993	50,993	55,524	(4,531)
Transportation	54,841	54,841	59,818	(4,977)
Airport	14,670	14,670	11,594	3,076
Golf	232,580	232,580	232,923	(343)
TOTAL EXPENDITURES	<u>1,745,980</u>	<u>1,745,980</u>	<u>1,539,996</u>	<u>205,984</u>
EXCESS OF REVENUES				
(UNDER) EXPENDITURES				
	(747,610)	(747,610)	(377,894)	369,716
OTHER FINANCING SOURCES				
Lease proceeds	-	-	64,000	64,000
Operating transfers in	769,000	769,000	450,000	(319,000)
TOTAL OTHER FINANCING SOURCES	<u>769,000</u>	<u>769,000</u>	<u>514,000</u>	<u>(255,000)</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES				
	21,390	21,390	136,106	114,716
FUND BALANCE, July 1, as restated				
	<u>167,007</u>	<u>167,007</u>	<u>167,007</u>	<u>-</u>
FUND BALANCE, June 30				
	<u><u>\$ 188,397</u></u>	<u><u>\$ 188,397</u></u>	<u><u>\$ 303,113</u></u>	<u><u>\$ 114,716</u></u>

CITY OF MT. VERNON, MISSOURI
 BUDGETARY COMPARISON SCHEDULE – SPECIAL SALES TAX FUND
 Year Ended June 30, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
REVENUES				
Taxes				
City sales tax	\$ 480,000	\$ 480,000	\$ 557,863	\$ 77,863
Miscellaneous				
Interest	6,700	6,700	18,303	11,603
TOTAL REVENUES	<u>486,700</u>	<u>486,700</u>	<u>576,166</u>	<u>89,466</u>
OTHER FINANCING (USES)				
Operating transfers (out)	<u>-</u>	<u>-</u>	<u>(426,760)</u>	<u>(426,760)</u>
EXCESS OF REVENUES OVER OTHER USES	486,700	486,700	149,406	(337,294)
FUND BALANCE, July 1	<u>479,735</u>	<u>479,735</u>	<u>479,735</u>	<u>-</u>
FUND BALANCE, June 30	<u><u>\$ 966,435</u></u>	<u><u>\$ 966,435</u></u>	<u><u>\$ 629,141</u></u>	<u><u>\$ (337,294)</u></u>

CITY OF MT. VERNON, MISSOURI
 BUDGETARY COMPARISON SCHEDULE – INDUSTRIAL DEVELOPMENT FUND
 Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance With Final Budget
REVENUES				
Miscellaneous				
Interest	\$ 670	\$ 670	\$ 2,621	\$ 1,951
TOTAL REVENUES	670	670	2,621	1,951
OTHER FINANCING (USES)				
Operating transfers (out)	-	-	(25,414)	(25,414)
EXCESS OF REVENUES OVER (UNDER) OTHER USES	670	670	(22,793)	(23,463)
FUND BALANCE, July 1	90,760	90,760	90,760	-
FUND BALANCE, June 30	\$ 91,430	\$ 91,430	\$ 67,967	\$ (23,463)

CITY OF MT. VERNON, MISSOURI
NOTE TO BUDGETARY COMPARISON SCHEDULES
June 30, 2006

Budgets and Budgetary Accounting

The City utilizes the following procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to July, Administration submits to the Board of Aldermen a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditure plans for all fund types and the proposed means of financing them.
2. One public hearing is conducted by the Board of Aldermen in late May or early June to obtain taxpayers' comments on the proposed budget and tax levy.
3. Prior to July 1, ordinances are passed by the Board of Aldermen which provide for legally adopted budgets for all funds of the City.
4. Formal budgetary integration is employed as a management control device for all funds of the City.
5. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with GAAP. Budgeted amounts may be amended during the year by the Board of Aldermen on approved budget adjustment forms.

OTHER FINANCIAL INFORMATION



DAVIS, LYNN &
MOOTS, P.C.
Certified Public
Accountants

LARRY M. BROWN, CPA
LAWRENCE W. DAVIS, CPA
ANTHONY D. LYNN, CPA
RANDALL G. MOOTS, CPA
ANGELA M. PATRICK, CPA
ANDREW A. MARMOUGET, CPA

3828 SOUTH AVENUE
SPRINGFIELD, MO 65807
(417) 882-0904
FAX (417) 882-4343

www.dlmcpa.com
e-mail: cpa@dlmcpa.com

**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**

Honorable Mayor and Board of Aldermen
City of Mt. Vernon
Mt. Vernon, Missouri

We have audited the financial statements of the City of Mt. Vernon, Missouri as of and for the year ended June 30, 2006, and have issued our report thereon dated November 10, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City of Mt. Vernon, Missouri's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Mt. Vernon, Missouri's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

Honorable Mayor and Board of Aldermen
City of Mt. Vernon
Mt. Vernon, Missouri

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described below is a material weakness.

Because of a limited number of available personnel, it is not always possible to adequately segregate certain incompatible duties so that no one employee has access to both physical assets and the related accounting records, or to all phases of a transaction. Consequently, there is the possibility that unintentional or intentional errors or irregularities could exist and not be promptly detected. This material weakness is a common weakness found throughout smaller cities.

Compliance and Other Matters

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

However, we noted certain matters that we have reported to management of the City of Mt. Vernon, Missouri in a separate letter dated November 10, 2006.

This report is intended solely for the information and use of the Board of Aldermen and management and is not intended to be and should not be used by anyone other than these specified parties.

Davis, Lynn; Moots, PC

DAVIS, LYNN & MOOTS, P.C.
November 10, 2006