

CITY OF MT. VERNON, MISSOURI

BASIC FINANCIAL STATEMENTS

Year ended December 31, 2014

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

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 December 31, 2014, and the related notes to the financial statements, which collectively comprise the Board'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 accounting principles generally accepted in the United States of America; 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.

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

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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the City of Mt. Vernon, Missouri, as of December 31, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, budgetary comparison schedule and schedule of funding progress be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 2, 2015, on our consideration of the City of Mt. Vernon, Missouri's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Mt. Vernon, Missouri's internal control over financial reporting and compliance.

KPM CPAs, PC

KPM CPAs, PC
Springfield, Missouri
April 2, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF MT. VERNON, MISSOURI
December 31, 2014

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 December 31, 2014. Please read it in conjunction with the City's financial statements, which begin on page 15.

Financial Highlights

- The net position of the City's governmental activities increased by \$18,990 as a result of current year activities. The net position of the City's business activities increased by \$460,469 for the year.
- The assets of the City exceeded its liabilities as of December 31, 2014, by \$25,348,250 (net position). Of this amount \$6,907,688 was unrestricted and may be used to meet future obligations of the City.
- Total long-term liabilities of the City increased by \$1,188,492 mainly due to the issuance of the Series 2014 Certificates of Participation in the amount of \$1,545,000.

Using This Report

This report consists of a series of financial statements. The Statement of Net Position 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 Position 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 period's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the City's net position and changes in them. The City's net position – the difference between assets and deferred outflows and liabilities and deferred inflows – is one way to measure the City's financial health, or financial position. Over time, increases or decreases in the City's net position are one indicator of whether its financial health is improving or deteriorating.

MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF MT. VERNON, MISSOURI
December 31, 2014

Government-Wide Financial Statements (continued)

In the Statement of Net Position 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 most significant funds and not the City as a whole. However, 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 period-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 Position 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 Position and the Statement of Activities.

MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF MT. VERNON, MISSOURI
December 31, 2014

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 POSITION

The following table presents the condensed Statement of Net Position for the City as of December 31, 2014, and December 31, 2013:

| | Governmental Activities | Business-Type Activities | Total December 31, 2014 | Total December 31, 2013 |
|----------------------------------|----------------------------|-----------------------------|-------------------------------|-------------------------------|
| Current and other assets | \$ 2,668,941 | \$ 8,907,598 | \$ 11,576,539 | \$ 9,798,273 |
| Capital assets | 12,682,652 | 16,175,322 | 28,857,974 | 28,352,109 |
| TOTAL ASSETS | 15,351,593 | 25,082,920 | 40,434,513 | 38,150,382 |
| Other liabilities | 472,409 | 1,026,501 | 1,498,910 | 882,730 |
| Long-term liabilities | 1,218,600 | 12,368,753 | 13,587,353 | 12,398,861 |
| TOTAL LIABILITIES | 1,691,009 | 13,395,254 | 15,086,263 | 13,281,591 |
| Net position: | | | | |
| Net investment in capital assets | 12,303,459 | 3,588,655 | 15,892,114 | 15,639,539 |
| Restricted | 1,439,536 | 1,108,912 | 2,548,448 | 2,054,751 |
| Unrestricted | (82,411) | 6,990,099 | 6,907,688 | 7,174,501 |
| TOTAL NET POSITION | <u>\$ 13,660,584</u> | <u>\$ 11,687,666</u> | <u>\$ 25,348,250</u> | <u>\$ 24,868,791</u> |

Total net position of the City increased by \$479,459 for the year due to current year activity. Total liabilities for the City have increased by \$1,804,672. Restricted net position of the City totaled \$2,548,448 as of December 31, 2014.

MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF MT. VERNON, MISSOURI
December 31, 2014

CHANGES IN NET POSITION

| | Governmental Activities | Business-Type Activities | Total Year Ended December 31, 2014 | Total Year Ended December 31, 2013 |
|---|----------------------------|-----------------------------|---|---|
| REVENUES | | | | |
| Program Revenues | | | | |
| Charges for services | \$ 228,427 | \$ 9,068,075 | \$ 9,296,502 | \$ 8,722,964 |
| Operating grants and contributions | 30,414 | - | 30,414 | 7,000 |
| Capital grants and contributions | 231,226 | - | 231,226 | 92,474 |
| General Revenues | | | | |
| Sales taxes | 1,245,426 | - | 1,245,426 | 1,051,640 |
| Motor vehicle and gas taxes | 173,294 | - | 173,294 | 165,973 |
| Other taxes | 31,808 | - | 31,808 | 27,880 |
| Franchise fees | 93,807 | - | 93,807 | 91,609 |
| Interest | 35,277 | 217,391 | 252,668 | 264,591 |
| Other revenue | 40,287 | - | 40,287 | 24,544 |
| Transfers | 508,494 | (508,494) | - | - |
| TOTAL REVENUES AND TRANSFERS | 2,618,460 | 8,776,972 | 11,395,432 | 10,448,675 |
| EXPENSES | | | | |
| Administrative | 82,879 | - | 82,879 | 121,049 |
| Police | 647,920 | - | 647,920 | 634,498 |
| Municipal court | 36,880 | - | 36,880 | 20,838 |
| Fire | 69,966 | - | 69,966 | 92,492 |
| Animal control | 8,240 | - | 8,240 | 11,435 |
| Parks | 244,029 | - | 244,029 | 242,685 |
| Community center | 94,514 | - | 94,514 | 98,085 |
| Street | 876,323 | - | 876,323 | 821,495 |
| Planning and zoning | 60,165 | - | 60,165 | 57,131 |
| Transportation | 87,026 | - | 87,026 | 91,418 |
| Airport | 21,364 | - | 21,364 | 16,959 |
| Golf | 245,124 | - | 245,124 | 247,285 |
| Economic development | 28,598 | - | 28,598 | 31,241 |
| Industrial development | 23,118 | - | 23,118 | - |
| Debt service | 73,324 | - | 73,324 | 36,134 |
| Electric | - | 6,218,584 | 6,218,584 | 5,930,257 |
| Water | - | 891,910 | 891,910 | 838,394 |
| Sewer | - | 1,206,009 | 1,206,009 | 1,027,494 |
| TOTAL EXPENSES | 2,599,470 | 8,316,503 | 10,915,973 | 10,318,890 |
| INCREASE IN NET POSITION | \$ 18,990 | \$ 460,469 | \$ 479,459 | \$ 129,785 |

MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF MT. VERNON, MISSOURI
December 31, 2014

Governmental Activities

Governmental activities increased the net position of the City by \$18,990. Tax revenues for the City were \$1,544,335, which represents 59% of the funding of these activities. Program and other revenues for the functions totaled \$565,631, or 22% of the funding. Transfers from the City business-type activities totaled \$508,494, which represents 19% of the funding of these activities. 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 |
|------------------------|---------------------------|-------------------------|
| Administrative | \$ 82,879 | \$ 74,260 |
| Police | 647,920 | 588,384 |
| Municipal court | 36,880 | 36,880 |
| Fire | 69,966 | 69,966 |
| Animal control | 8,240 | 7,679 |
| Parks | 244,029 | 213,110 |
| Community center | 94,514 | 72,543 |
| Street | 876,323 | 704,598 |
| Planning and zoning | 60,165 | 43,878 |
| Transportation | 87,026 | 17,074 |
| Airport | 21,364 | 2,972 |
| Golf | 245,124 | 155,136 |
| Economic development | 28,598 | 28,598 |
| Industrial development | 23,118 | 21,001 |
| Debt service | 73,324 | 73,324 |
| | \$ 2,599,470 | \$ 2,109,403 |

Business-Type Activities

Business-type activities increased the City's net position by \$460,469. Last year the business-type activities increased net position by \$156,775.

MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF MT. VERNON, MISSOURI
December 31, 2014

Financial Analysis of the City's Funds

The combined fund balances of the City's governmental funds as of December 31, 2014, were \$2,607,023. The General Fund increased by \$694,088. The Capital Improvement Sales Tax Fund increased by \$2,457. The Industrial Development Fund decreased by \$17,678. The Debt Service Fund decreased by \$152,025.

General Fund Budgetary Highlights

Differences between the original and the final amended budget can be summarized as follows:

- The original revenue budget of \$1,526,285 was increased to \$1,758,719.
- The original expenditures budget of \$2,451,690 was increased to \$3,044,022.

Capital Assets and Debt Administration

Capital Assets

Capital assets of the governmental activities were \$12,682,652 (net of accumulated depreciation) as of December 31, 2014. This represents a \$476,451 increase from the prior year. Capital assets for business-type activities were \$16,175,322 as of December 31, 2014. This represents an increase of \$29,414.

Debt

Total debt of the governmental activities as of December 31, 2014, was \$1,619,567. Governmental activities debt consists of \$385,000 in 1995 General Obligation Industrial Bonds, \$927,000 in 2014 Certificates of Participation, \$17,039 capital lease payable, \$183,248 loan payable, \$99,244 in compensated absences, and \$8,036 in net pension obligation payable.

Total debt of the business-type activities as of December 31, 2014, was \$12,876,526. This consists of \$1,300,000 in 2008 Certificates of Participation, \$3,190,000 in 2005 Certificates of Participation, \$2,095,000 in 2011 Certificates of Participation, \$5,308,890 in Series 2008 Revenue Bonds, \$618,000 in 2014 Certificates of Participation, \$68,157 capital lease payable, \$274,872 loan payable, and \$21,607 in compensated absences.

MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF MT. VERNON, MISSOURI
December 31, 2014

Economic Factors and Next Year's Budget

2014 was an eventful year for the City of Mount Vernon with the closing of the University of Missouri Rehabilitation Center, the purchase of the Rehabilitation Center by the City, the announcement by B&M Inc. of the relocation of Red Monkey Foods to Republic, and the opening of the new Walmart Super Center.

Each of these events will have an impact on the City's 2015 budget and the economy in both positive and negative ways. The Walmart opening has an impact on the sales tax collected by the City and the anticipated sales tax revenue for 2015. The Missouri Rehabilitation Center was the City and County's largest employer; with the closure, some jobs were lost while others were saved in the City's acquisition of MRC and the City contracting with the Veterans Administration to keep the Gene Taylor Veterans Community Clinic. The City expanded utility services to property south of Interstate 44 in preparation for commercial expansion. The unemployment in Mount Vernon has stayed fairly consistent at around 5 to 5.3% even with the closing of MRC. Other influences in the 2015 budget are increases in utility costs, expansion of utility services, cost of living increase for employees, and participation in a Transportation Grant, Transportation Alternative Grant and a MODOT Airport Maintenance Grant. The Budget will also reflect the revenue and expenses to operate the old MRC facility and the Developers Agreement with Walmart for the reimbursement for infrastructure installed during the construction of the Walmart facilities.

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
Max Springer, City Administrator
Shannon Neely, City Clerk

CITY OF MT. VERNON, MISSOURI
STATEMENT OF NET POSITION
December 31, 2014

| | Governmental Activities | Business-Type Activities | Total |
|--|----------------------------|-----------------------------|----------------------|
| ASSETS | | | |
| Current | | | |
| Cash and cash equivalents - unrestricted | \$ 1,033,689 | \$ 3,737,766 | \$ 4,771,455 |
| Investments | 411,835 | 1,732,845 | 2,144,680 |
| Interest receivable | 445 | 1,553 | 1,998 |
| Taxes receivable | 282,476 | - | 282,476 |
| Utilities receivable, net | - | 1,180,202 | 1,180,202 |
| Other receivable | 26,651 | 311,072 | 337,723 |
| Note receivable | 452,908 | - | 452,908 |
| Interfund balances | (49,252) | 49,252 | - |
| Prepaid expenses | 11,966 | 4,145 | 16,111 |
| Inventory | - | 416,014 | 416,014 |
| Noncurrent | | | |
| Restricted cash and cash equivalents | 461,093 | 1,474,749 | 1,935,842 |
| Restricted investments | 37,130 | - | 37,130 |
| Capital Assets: | | | |
| Non-depreciable | 1,852,589 | 537,910 | 2,390,499 |
| Depreciable, net | 10,830,063 | 15,637,412 | 26,467,475 |
| TOTAL ASSETS | 15,351,593 | 25,082,920 | 40,434,513 |
| LIABILITIES | | | |
| Current | | | |
| Accounts payable | 59,184 | 178,585 | 237,769 |
| Accrued expenses | 2,481 | 4,585 | 7,066 |
| Deposits payable | - | 97,585 | 97,585 |
| Court bonds payable | 253 | - | 253 |
| Accrued interest payable | 9,524 | 237,973 | 247,497 |
| Current portion of long-term debt | 400,967 | 507,773 | 908,740 |
| | 472,409 | 1,026,501 | 1,498,910 |
| Noncurrent | | | |
| Compensated absences payable | 99,244 | 21,607 | 120,851 |
| Net pension obligation payable | 8,036 | - | 8,036 |
| Capital leases payable | 1,072 | 55,384 | 56,456 |
| Loan payable | 183,248 | 274,872 | 458,120 |
| Revenue bonds payable, net | - | 5,123,890 | 5,123,890 |
| Certificates of participation payable | 927,000 | 6,893,000 | 7,820,000 |
| | 1,218,600 | 12,368,753 | 13,587,353 |
| TOTAL LIABILITIES | 1,691,009 | 13,395,254 | 15,086,263 |
| NET POSITION | | | |
| Net investment in capital assets | 12,303,459 | 3,588,655 | 15,892,114 |
| Restricted | 1,439,536 | 1,108,912 | 2,548,448 |
| Unrestricted | (82,411) | 6,990,099 | 6,907,688 |
| TOTAL NET POSITION | \$ 13,660,584 | \$ 11,687,666 | \$ 25,348,250 |

See accompanying notes.

CITY OF MT. VERNON, MISSOURI
STATEMENT OF ACTIVITIES
Year Ended December 31, 2014

| Functions/Programs | Expenses | Program Revenues | | | Net (Expenses), Revenues and Changes in Net Position | | |
|---------------------------------------|------------------------|----------------------|------------------------------------|----------------------------------|--|--------------------------|----------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-Type Activities | Total |
| Governmental activities: | | | | | | | |
| Administrative | \$ (82,879) | \$ 8,619 | \$ - | \$ - | \$ (74,260) | \$ - | \$ (74,260) |
| Police | (647,920) | 36,122 | 23,414 | - | (588,384) | - | (588,384) |
| Municipal court | (36,880) | - | - | - | (36,880) | - | (36,880) |
| Fire | (69,966) | - | - | - | (69,966) | - | (69,966) |
| Animal control | (8,240) | 561 | - | - | (7,679) | - | (7,679) |
| Parks | (244,029) | 23,919 | 7,000 | - | (213,110) | - | (213,110) |
| Community center | (94,514) | 21,971 | - | - | (72,543) | - | (72,543) |
| Street | (876,323) | - | - | 171,725 | (704,598) | - | (704,598) |
| Planning and zoning | (60,165) | 16,287 | - | - | (43,878) | - | (43,878) |
| Transportation | (87,026) | 10,451 | - | 59,501 | (17,074) | - | (17,074) |
| Airport | (21,364) | 18,392 | - | - | (2,972) | - | (2,972) |
| Golf | (245,124) | 89,988 | - | - | (155,136) | - | (155,136) |
| Economic development | (28,598) | - | - | - | (28,598) | - | (28,598) |
| Industrial development | (23,118) | 2,117 | - | - | (21,001) | - | (21,001) |
| Debt service | (73,324) | - | - | - | (73,324) | - | (73,324) |
| TOTAL GOVERNMENTAL ACTIVITIES | (2,599,470) | 228,427 | 30,414 | 231,226 | (2,109,403) | - | (2,109,403) |
| Business-type activities: | | | | | | | |
| Electric | (6,218,584) | 7,566,920 | - | - | - | 1,348,336 | 1,348,336 |
| Water | (891,910) | 634,883 | - | - | - | (257,027) | (257,027) |
| Sewer | (1,206,009) | 866,272 | - | - | - | (339,737) | (339,737) |
| TOTAL BUSINESS-TYPE ACTIVITIES | (8,316,503) | 9,068,075 | - | - | - | 751,572 | 751,572 |
| TOTAL GOVERNMENT | \$ (10,915,973) | \$ 9,296,502 | \$ 30,414 | \$ 231,226 | (2,109,403) | 751,572 | (1,357,831) |
| General Revenues: | | | | | | | |
| | | | | | 1,245,426 | - | 1,245,426 |
| | | | | | 173,294 | - | 173,294 |
| | | | | | 31,808 | - | 31,808 |
| | | | | | 93,807 | - | 93,807 |
| | | | | | 35,277 | 217,391 | 252,668 |
| | | | | | 40,287 | - | 40,287 |
| | | | | | 508,494 | (508,494) | - |
| | | | | | 2,128,393 | (291,103) | 1,837,290 |
| | | | | | | 18,990 | 479,459 |
| | | | | | | 11,227,197 | 24,868,791 |
| | | | | | \$ 13,660,584 | \$ 11,687,666 | \$ 25,348,250 |

See accompanying notes.

CITY OF MT. VERNON, MISSOURI
BALANCE SHEET – GOVERNMENTAL FUNDS
December 31, 2014

| | <u>Special Revenue Funds</u> | | | | Total Governmental Funds |
|--|------------------------------|---|-----------------------------------|-------------------------|--------------------------------|
| | General Fund | Capital Improvement Sales Tax Fund | Industrial Development Fund | Debt Service Fund | |
| ASSETS | | | | | |
| Cash and cash equivalents - unrestricted | \$ 545,242 | \$ 306,913 | \$ 181,534 | \$ - | \$ 1,033,689 |
| Investments - unrestricted | - | 411,835 | - | - | 411,835 |
| Taxes receivable | 223,487 | 58,989 | - | - | 282,476 |
| Other receivable | 26,651 | - | - | - | 26,651 |
| Interest receivable | - | 430 | - | 15 | 445 |
| Notes receivable | - | - | - | 452,908 | 452,908 |
| Prepaid expenses | 11,966 | - | - | - | 11,966 |
| Restricted cash and cash equivalents | 299,049 | - | - | 162,044 | 461,093 |
| Restricted investments | - | - | - | 37,130 | 37,130 |
| TOTAL ASSETS | \$ 1,106,395 | \$ 778,167 | \$ 181,534 | \$ 652,097 | \$ 2,718,193 |
| LIABILITIES AND FUND BALANCES | | | | | |
| Liabilities | | | | | |
| Accounts payable | \$ 59,184 | \$ - | \$ - | \$ - | \$ 59,184 |
| Accrued expenses | 2,481 | - | - | - | 2,481 |
| Court bonds payable | 253 | - | - | - | 253 |
| Due to other funds | 28,730 | 20,522 | - | - | 49,252 |
| TOTAL LIABILITIES | 90,648 | 20,522 | - | - | 111,170 |
| Fund Balances | | | | | |
| Nonspendable: | | | | | |
| Notes receivable | - | - | - | 62,908 | 62,908 |
| Prepaid expenses | 11,966 | - | - | - | 11,966 |
| Restricted for: | | | | | |
| Debt service | 92,702 | - | - | 589,189 | 681,891 |
| Capital improvements | 206,094 | 757,645 | - | - | 963,739 |
| Assigned to: | | | | | |
| Purchase of fire truck | 60,000 | - | - | - | 60,000 |
| Property demolition | 225,000 | - | - | - | 225,000 |
| Industrial development | - | - | 181,534 | - | 181,534 |
| Economic development | 69,313 | - | - | - | 69,313 |
| Unassigned | 350,672 | - | - | - | 350,672 |
| TOTAL FUND BALANCES | 1,015,747 | 757,645 | 181,534 | 652,097 | 2,607,023 |
| TOTAL LIABILITIES AND FUND BALANCES | \$ 1,106,395 | \$ 778,167 | \$ 181,534 | \$ 652,097 | \$ 2,718,193 |

See accompanying notes.

CITY OF MT. VERNON, MISSOURI
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF
 NET POSITION
 December 31, 2014

| | |
|---|-----------------------------|
| Fund balance - total governmental funds | \$ 2,607,023 |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds: | |
| Governmental capital assets | 39,850,937 |
| Less accumulated depreciation | <u>(27,168,285)</u> |
| | 12,682,652 |
| Compensated absences are not accrued in the governmental funds but rather is recognized as an expenditure when paid | (99,244) |
| Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due | (9,524) |
| Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds | <u>(1,520,323)</u> |
| Net Position of Governmental Activities | <u><u>\$ 13,660,584</u></u> |

See accompanying notes.

CITY OF MT. VERNON, MISSOURI
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –
GOVERNMENTAL FUNDS
Year Ended December 31, 2014

| | Special Revenue Funds | | | | Total Governmental Funds |
|--|-----------------------|---|-----------------------------------|-------------------------|--------------------------------|
| | General Fund | Capital Improvement Sales Tax Fund | Industrial Development Fund | Debt Service Fund | |
| REVENUES | | | | | |
| Taxes | \$ 1,232,809 | \$ 311,526 | \$ - | \$ - | \$ 1,544,335 |
| Licenses and permits | 22,781 | - | - | - | 22,781 |
| Intergovernmental revenues | 254,640 | - | - | - | 254,640 |
| Charges for services | 167,407 | - | 2,117 | - | 169,524 |
| Fines and forfeitures | 34,543 | - | - | - | 34,543 |
| Miscellaneous | 46,539 | 1,706 | 3,323 | 32,575 | 84,143 |
| TOTAL REVENUES | 1,758,719 | 313,232 | 5,440 | 32,575 | 2,109,966 |
| EXPENDITURES | | | | | |
| Current | | | | | |
| Administrative | 74,414 | - | - | - | 74,414 |
| Police | 629,176 | - | - | - | 629,176 |
| Municipal court | 36,880 | - | - | - | 36,880 |
| Fire | 53,657 | - | - | - | 53,657 |
| Animal control | 8,240 | - | - | - | 8,240 |
| Parks | 236,875 | - | - | - | 236,875 |
| Community center | 63,486 | - | - | - | 63,486 |
| Street | 1,476,709 | - | - | - | 1,476,709 |
| Planning and zoning | 58,399 | - | - | - | 58,399 |
| Transportation | 81,902 | - | - | - | 81,902 |
| Airport | 11,892 | - | - | - | 11,892 |
| Golf | 246,714 | - | - | - | 246,714 |
| Economic development | 28,598 | - | - | - | 28,598 |
| Industrial development | - | - | 23,118 | - | 23,118 |
| Debt Service | | | | | |
| Principal, interest and fees | 37,080 | - | - | 184,600 | 221,680 |
| TOTAL EXPENDITURES | 3,044,022 | - | 23,118 | 184,600 | 3,251,740 |
| EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES | (1,285,303) | 313,232 | (17,678) | (152,025) | (1,141,774) |
| OTHER FINANCING SOURCES (USES) | | | | | |
| Certificate of Participation proceeds | 927,000 | - | - | - | 927,000 |
| Loan proceeds | 216,083 | - | - | - | 216,083 |
| Lease proceeds | 17,039 | - | - | - | 17,039 |
| Operating transfers in (out) | 819,269 | (310,775) | - | - | 508,494 |
| TOTAL OTHER FINANCING SOURCES (USES) | 1,979,391 | (310,775) | - | - | 1,668,616 |
| EXCESS (DEFICIT) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER (USES) | 694,088 | 2,457 | (17,678) | (152,025) | 526,842 |
| FUND BALANCE, January 1 | 321,659 | 755,188 | 199,212 | 804,122 | 2,080,181 |
| FUND BALANCE, December 31 | \$ 1,015,747 | \$ 757,645 | \$ 181,534 | \$ 652,097 | \$ 2,607,023 |

See accompanying notes.

CITY OF MT. VERNON, MISSOURI
 RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
 BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
 Year Ended December 31, 2014

Net change in fund balances - total governmental funds \$ 526,842

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 outlay exceeded depreciation for the year.

| | |
|----------------|----------------|
| Capital outlay | 1,273,696 |
| Depreciation | (797,245) |
| | <u>476,451</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. (5,372)

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.

| | |
|--|------------------|
| Repayment of principal on bonds, leases, and loans | 187,835 |
| Certificate of Participation proceeds | (927,000) |
| Capital lease proceeds | (17,039) |
| Loan proceeds | (216,083) |
| Interest | (6,644) |
| | <u>(978,931)</u> |

Change in net position of governmental activities \$ 18,990

See accompanying notes.

CITY OF MT. VERNON, MISSOURI
STATEMENT OF NET POSITION – PROPRIETARY FUNDS
December 31, 2014

| ASSETS | Enterprise Funds | | | Total |
|---|---------------------|-------------------|---------------------|----------------------|
| | Electric Fund | Water Fund | Sewer Fund | |
| Current Assets | | | | |
| Cash and cash equivalents | \$ 2,079,910 | \$ 1,092,007 | \$ 565,849 | \$ 3,737,766 |
| Investments | 1,526,927 | 205,918 | - | 1,732,845 |
| Interest receivable | 1,339 | 214 | - | 1,553 |
| Rebate receivable | 311,072 | - | - | 311,072 |
| Utilities receivable, net | 968,746 | 92,459 | 118,997 | 1,180,202 |
| Due from other funds | - | 49,252 | - | 49,252 |
| Prepaid expenses | 1,974 | 2,171 | - | 4,145 |
| Inventory | 333,123 | 82,891 | - | 416,014 |
| TOTAL CURRENT ASSETS | 5,223,091 | 1,524,912 | 684,846 | 7,432,849 |
| Restricted Assets | | | | |
| Cash and cash equivalents | 138,101 | 740,833 | 595,815 | 1,474,749 |
| TOTAL RESTRICTED ASSETS | 138,101 | 740,833 | 595,815 | 1,474,749 |
| Property, Plant and Equipment, | | | | |
| Non-depreciable | 217,478 | 128,241 | 192,191 | 537,910 |
| Depreciable | 6,790,862 | 6,247,115 | 15,045,079 | 28,083,056 |
| Accumulated Depreciation | (2,826,275) | (2,258,543) | (7,360,826) | (12,445,644) |
| TOTAL PROPERTY, PLANT, AND EQUIPMENT | 4,182,065 | 4,116,813 | 7,876,444 | 16,175,322 |
| TOTAL ASSETS | 9,543,257 | 6,382,558 | 9,157,105 | 25,082,920 |
| LIABILITIES | | | | |
| Current Liabilities | | | | |
| Accounts payable | 51,383 | 127,202 | - | 178,585 |
| Accrued expenses | 4,219 | 366 | - | 4,585 |
| Accrued interest payable | 10,966 | 80,378 | 146,629 | 237,973 |
| Utility deposits | 97,585 | - | - | 97,585 |
| Current maturities of long-term debt | 73,193 | 243,193 | 191,387 | 507,773 |
| TOTAL CURRENT LIABILITIES | 237,346 | 451,139 | 338,016 | 1,026,501 |
| Long-Term Liabilities | | | | |
| Compensated absences payable | 9,559 | 12,048 | - | 21,607 |
| Capital leases payable | 13,846 | 13,846 | 27,692 | 55,384 |
| Revenue bonds payable, net | - | - | 5,123,890 | 5,123,890 |
| Certificates of participation payable | 1,345,875 | 5,261,300 | 285,825 | 6,893,000 |
| Loan payable | - | 274,872 | - | 274,872 |
| TOTAL LONG-TERM LIABILITIES | 1,369,280 | 5,562,066 | 5,437,407 | 12,368,753 |
| TOTAL LIABILITIES | 1,606,626 | 6,013,205 | 5,775,423 | 13,395,254 |
| NET POSITION | | | | |
| Net investment in capital assets | 2,778,079 | (1,599,251) | 2,409,827 | 3,588,655 |
| Restricted | 11,588 | 663,686 | 433,638 | 1,108,912 |
| Unrestricted | 5,146,964 | 1,304,918 | 538,217 | 6,990,099 |
| TOTAL NET POSITION | \$ 7,936,631 | \$ 369,353 | \$ 3,381,682 | \$ 11,687,666 |

See accompanying notes.

CITY OF MT. VERNON, MISSOURI
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION – PROPRIETARY
FUNDS
Year Ended December 31, 2014

| | Enterprise Funds | | | Total |
|---|------------------|---------------|---------------|---------------|
| | Electric Fund | Water Fund | Sewer Fund | |
| OPERATING REVENUES | | | | |
| Charges for services | \$ 7,548,296 | \$ 632,986 | \$ 866,272 | \$ 9,047,554 |
| Miscellaneous | 18,624 | 1,897 | - | 20,521 |
| TOTAL OPERATING REVENUES | 7,566,920 | 634,883 | 866,272 | 9,068,075 |
| OPERATING EXPENSES | | | | |
| Salaries and wages | 198,465 | 121,634 | - | 320,099 |
| Employee benefits | 59,721 | 43,393 | - | 103,114 |
| Gas and oil | 7,744 | 10,188 | 408 | 18,340 |
| Materials and supplies | 35 | 22,512 | 6,774 | 29,321 |
| Insurance | 20,459 | 18,226 | 12,587 | 51,272 |
| Power purchased | 5,387,723 | - | 64,862 | 5,452,585 |
| Telephone and utilities | 4,296 | 4,313 | 6,025 | 14,634 |
| Repairs and maintenance | 146,774 | 92,185 | 93,084 | 332,043 |
| Professional fees | 6,347 | 10,195 | 231,961 | 248,503 |
| Other expenses | 6,836 | 29,480 | - | 36,316 |
| Depreciation | 190,829 | 221,424 | 328,494 | 740,747 |
| Administrative | 121,960 | 102,878 | 127,098 | 351,936 |
| TOTAL OPERATING EXPENSES | 6,151,189 | 676,428 | 871,293 | 7,698,910 |
| OPERATING INCOME (LOSS) | 1,415,731 | (41,545) | (5,021) | 1,369,165 |
| NONOPERATING REVENUES (EXPENSES) | | | | |
| Interest income | 10,391 | 3,258 | 203,742 | 217,391 |
| Interest expense | (62,760) | (206,830) | (323,283) | (592,873) |
| Debt issue costs | (4,635) | (8,652) | (11,433) | (24,720) |
| TOTAL NONOPERATING REVENUES (EXPENSES) | (57,004) | (212,224) | (130,974) | (400,202) |
| INCOME (LOSS) BEFORE OPERATING TRANSFERS | 1,358,727 | (253,769) | (135,995) | 968,963 |
| OPERATING TRANSFERS IN (OUT) | (848,000) | 270,571 | 68,935 | (508,494) |
| NET INCOME (LOSS) | 510,727 | 16,802 | (67,060) | 460,469 |
| NET POSITION, January 1 | 7,425,904 | 352,551 | 3,448,742 | 11,227,197 |
| NET POSITION, December 31 | \$ 7,936,631 | \$ 369,353 | \$ 3,381,682 | \$ 11,687,666 |

See accompanying notes.

CITY OF MT. VERNON, MISSOURI
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS
Year Ended December 31, 2014

| | Enterprise Funds | | | |
|--|---------------------|---------------------|-------------------|---------------------|
| | Electric Fund | Water Fund | Sewer Fund | Total |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Cash received from customers | \$ 7,465,470 | \$ 631,251 | \$ 846,366 | \$ 8,943,087 |
| Cash paid to suppliers | (6,024,868) | (333,828) | (542,799) | (6,901,495) |
| Cash paid to employees | (257,362) | (165,343) | - | (422,705) |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 1,183,240 | 132,080 | 303,567 | 1,618,887 |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | | | |
| Loans (to) other funds | - | (49,252) | - | (49,252) |
| Operating transfer in (out) | (848,000) | 270,571 | 68,935 | (508,494) |
| NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES | (848,000) | 221,319 | 68,935 | (557,746) |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | | |
| Certificates of participation proceeds | 115,875 | 216,300 | 285,825 | 618,000 |
| Capital lease proceeds | 17,039 | 17,039 | 34,079 | 68,157 |
| Loan proceeds | - | 324,124 | - | 324,124 |
| Acquisition and construction of capital assets | (114,591) | (391,456) | (186,165) | (692,212) |
| Payment of bond principal | - | - | (92,326) | (92,326) |
| Payment of certificates of participation | (65,000) | (150,000) | - | (215,000) |
| Payment of debt issue costs | (4,635) | (8,652) | (11,433) | (24,720) |
| Payment of interest expense | (62,327) | (218,720) | (322,997) | (604,044) |
| NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES | (113,639) | (211,365) | (293,017) | (618,021) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | |
| Interest received | 11,199 | 3,351 | 203,742 | 218,292 |
| Purchase of investments | (3,584) | (539) | - | (4,123) |
| NET CASH PROVIDED BY INVESTING ACTIVITIES | 7,615 | 2,812 | 203,742 | 214,169 |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 229,216 | 144,846 | 283,227 | 657,289 |
| CASH AND CASH EQUIVALENTS, Beginning of year | 1,988,795 | 1,687,994 | 878,437 | 4,555,226 |
| CASH AND CASH EQUIVALENTS, End of year | 2,218,011 | 1,832,840 | 1,161,664 | 5,212,515 |
| LESS RESTRICTED CASH AND CASH EQUIVALENTS | 138,101 | 740,833 | 595,815 | 1,474,749 |
| UNRESTRICTED CASH AND CASH EQUIVALENTS | \$ 2,079,910 | \$ 1,092,007 | \$ 565,849 | \$ 3,737,766 |

See accompanying notes.

CITY OF MT. VERNON, MISSOURI
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS (continued)
Year Ended December 31, 2014

| | Enterprise Funds | | | |
|---|---------------------|-------------------|-------------------|---------------------|
| | Electric Fund | Water Fund | Sewer Fund | Total |
| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES: | | | | |
| Operating income (loss) | \$ 1,415,731 | \$ (41,545) | \$ (5,021) | \$ 1,369,165 |
| Adjustments to reconcile operating income (loss) to net cash provided by operating activities: | | | | |
| Depreciation | 190,829 | 221,424 | 328,494 | 740,747 |
| (Increase) decrease in: | | | | |
| Utilities receivable | (105,264) | (3,632) | (19,906) | (128,802) |
| Rebate receivable | (311,072) | - | - | (311,072) |
| Prepaid expenses | (1,974) | (2,171) | - | (4,145) |
| Inventory | (9,611) | (34,681) | - | (44,292) |
| Increase (decrease) in: | | | | |
| Accounts payable | (37) | (6,999) | - | (7,036) |
| Accrued expenses | (420) | 58 | - | (362) |
| Meter deposits payable | 3,814 | - | - | 3,814 |
| Compensated absences payable | 1,244 | (374) | - | 870 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | <u>\$ 1,183,240</u> | <u>\$ 132,080</u> | <u>\$ 303,567</u> | <u>\$ 1,618,887</u> |

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. The following is a summary of the more significant policies.

Financial Reporting Entity

The City is organized under the laws of the State of Missouri and 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 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 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.

Government-Wide and Fund Financial Statements

The basic financial statements include both the government-wide (the Statement of Net Position 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 Position, 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.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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, Expenditures 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 not accounted for in other funds.

Capital Improvement Sales Tax Fund: The Capital Improvement Sales Tax Fund is used to account for the proceeds of specific revenue sources restricted, committed, or assigned for expenditures for specified purposes.

Industrial Development Fund: The Industrial Development Fund is used to account for resources restricted, committed, or assigned for industrial development.

Debt Service Fund: The Debt Service Fund is used to account for the accumulation of resources that are restricted, committed, or assigned for the payment of the 1995 General Obligation Industrial Bonds.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. For purposes of the statement of cash flows, cash equivalents are deposits available on demand or with an original maturity of less than three months at the time of purchase.

Compensated Absences

Employees earn vacation time based on their years of service to the City. Outstanding vacation leave is payable upon termination of employment. Compensated absences are recorded as a liability in the Statement of Net Position.

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 capital 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 Governmental Accounting Standards Board (GASB) Statement Section 1400-120-137 – *Capitalization of Interest Cost*. There was no interest capitalized during the current fiscal period.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund Balance Classification

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on constraints imposed on the use of these resources as follows:

Nonspendable fund balance – This classification includes amounts that cannot be spent because they are either a) not in spendable form or b) legally or contractually required to be maintained intact.

Restricted fund balance – This classification reflects the constraints imposed on resources either a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation.

Committed fund balance – These amounts can only be used for specific purposes pursuant to constraints imposed by formal resolutions of the Board of Aldermen – the government’s highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the Board removes the specified use by taking the same type of action imposing the commitment.

Assigned fund balance – This classification reflects the amounts constrained by the City’s “intent” to be used for specific purposes, but are neither restricted nor committed. Assigned fund balances include all remaining amounts (except negative balances) that are reported in the governmental funds, other than the General Fund, that are not classified as nonspendable and are neither restricted nor committed.

Unassigned fund balance – This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

In circumstances when a disbursement is made for a purpose for which amounts are available in multiple fund balance classifications, fund balance is depleted in the order of restricted, committed, assigned, and unassigned.

CITY OF MT. VERNON, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Net Position

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

Net Investment in Capital Assets – 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 position that is legally restricted by outside parties or by law through constitutional provisions or enabling legislation.

Unrestricted – This consists of net position that does not meet the definition of restricted or net investment in capital assets.

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

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 December 31, 2014, all bank balances on deposit are entirely insured or collateralized.

NOTE C – INVESTMENTS

Investments of the City as of December 31, 2014, consist of the following:

| <u>Investment Type</u> | <u>Maturity</u> | <u>Total</u> |
|-------------------------|-----------------------|---------------------|
| Certificates of Deposit | 1/31/2015 - 9/14/2015 | <u>\$ 2,181,810</u> |

CITY OF MT. VERNON, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2014

NOTE C – INVESTMENTS (continued)

Certificates of Deposit

Certificates of deposit are classified as investments but are considered deposits for custodial risk determination. State statutes require that the City’s deposits be collateralized in the name of the City by the trust department of a bank that does not hold the collateralized deposits. As of December 31, 2014, all certificates of deposit are entirely insured or collateralized with securities.

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.

Interest Rate Risk

The City has no formal policy on interest rate risk.

NOTE D – RESTRICTED ASSETS

Cash, investments and net position have been restricted in the following funds and activities as follows:

| | <u>Restricted Cash and Investments</u> | <u>Restricted Net Position</u> |
|------------------------------------|--|------------------------------------|
| GENERAL FUND | | |
| Court bonds | \$ 253 | \$ - |
| 2014 Certificates of Participation | | |
| Project Fund | 206,094 | - |
| Debt Service Reserve Fund | 92,701 | 92,701 |
| Lease Revenue Fund | 1 | 1 |
| | <u>\$ 299,049</u> | <u>\$ 92,702</u> |

CITY OF MT. VERNON, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2014

NOTE D – RESTRICTED ASSETS (continued)

| | Restricted Cash and Investments | Restricted Net Position |
|---|---------------------------------------|----------------------------|
| CAPITAL IMPROVEMENT SALES TAX FUND | | |
| Capital improvement sales tax | \$ - | \$ 757,645 |
| DEBT SERVICE FUND | | |
| Debt service | \$ 199,174 | \$ 589,189 |
| ELECTRIC FUND | | |
| 2014 Certificates of Participation | | |
| Project Fund | \$ 28,928 | \$ - |
| Debt Service Reserve Fund | 11,588 | 11,588 |
| Customer deposits | 97,585 | - |
| | <u>\$ 138,101</u> | <u>\$ 11,588</u> |
| WATER FUND | | |
| 2011 Certificates of Participation | | |
| Debt Service Reserve Fund | \$ 237,058 | \$ 237,058 |
| Lease Reserve Fund | 41,860 | 41,860 |
| 2005 Certificates of Participation | | |
| Debt Service Reserve Fund | 363,138 | 363,138 |
| 2014 Certificates of Participation | | |
| Project Fund | 77,147 | - |
| Debt Service Reserve Fund | 21,630 | 21,630 |
| | <u>\$ 740,833</u> | <u>\$ 663,686</u> |
| SEWER FUND | | |
| 2008 Waterworks and Sewerage System Bonds | | |
| Principal and Interest Fund | \$ 229,048 | \$ 229,048 |
| Debt Service Reserve Fund | 176,008 | 176,008 |
| 2014 Certificates of Participation | | |
| Project Fund | 162,177 | - |
| Debt Service Reserve Fund | 28,582 | 28,582 |
| | <u>\$ 595,815</u> | <u>\$ 433,638</u> |

CITY OF MT. VERNON, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2014

NOTE E – ACCOUNTS RECEIVABLE

Accounts receivable are presented net of an allowance for doubtful accounts as follows:

| | <u>Accounts Receivable</u> | <u>Allowance</u> | <u>Net Accounts Receivable</u> |
|-----------------------------|--------------------------------|--------------------|------------------------------------|
| UTILITIES RECEIVABLE | | | |
| Enterprise Funds | | | |
| Electric Fund | \$ 1,028,655 | \$ (59,909) | \$ 968,746 |
| Water Fund | 98,165 | (5,706) | 92,459 |
| Sewer Fund | 124,703 | (5,706) | 118,997 |
| | <u>\$ 1,251,523</u> | <u>\$ (71,321)</u> | <u>\$ 1,180,202</u> |

NOTE F – LONG-TERM LIABILITIES – GOVERNMENTAL ACTIVITIES

Long-term liabilities for governmental activities at December 31, 2014, consists of the 1995 General Obligation Industrial Bonds, 2014 Certificates of Participation, a capital lease payable, a loan payable, compensated absences, and net pension obligation payable.

1995 General Obligation Industrial Bonds

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 with annual principal payments due June 1 of each year. The annual debt service requirements to amortize the principal on the 1995 General Obligation Industrial Bonds outstanding at December 31, 2014, are as follows:

| <u>Year Ended December 31,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|------------------------------------|-------------------|------------------|-------------------|
| 2015 | <u>\$ 385,000</u> | <u>\$ 12,320</u> | <u>\$ 397,320</u> |

CITY OF MT. VERNON, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2014

NOTE F – LONG-TERM LIABILITIES – GOVERNMENTAL ACTIVITIES (continued)

2014 Certificates of Participation

On October 15, 2014, the City issued \$1,545,000 in Certificates of Participation for water, sewer, electric and street improvements. \$927,000 of the certificates was recorded as long-term debt within the governmental activities and \$618,000 was recorded as long-term debt within the business-type activities. The Certificates of Participation bear interest at 3.20% with interest payments due March 1 and September 1 each year and principal payments due September 1, 2024 and 2025. The annual debt service requirements to amortize the principal on the certificates outstanding at December 31, 2014, are as follows:

| <u>Year Ended December 31,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|------------------------------------|---------------------|-------------------|---------------------|
| 2015 | \$ - | \$ 43,397 | \$ 43,397 |
| 2016 | - | 49,440 | 49,440 |
| 2017 | - | 49,440 | 49,440 |
| 2018 | - | 49,440 | 49,440 |
| 2019 | - | 49,440 | 49,440 |
| 2020 | - | 49,440 | 49,440 |
| 2021 | - | 49,440 | 49,440 |
| 2022 | - | 49,440 | 49,440 |
| 2023 | - | 49,440 | 49,440 |
| 2024 | 655,000 | 49,440 | 704,440 |
| 2025 | 890,000 | 28,480 | 918,480 |
| | <u>\$ 1,545,000</u> | <u>\$ 516,837</u> | <u>\$ 2,061,837</u> |
| Governmental Activities | | | |
| General Fund | \$ 927,000 | | |
| Business-type Activities | | | |
| Electric Fund | 115,875 | | |
| Sewer Fund | 285,825 | | |
| Water Fund | 216,300 | | |
| | <u>\$ 1,545,000</u> | | |

Capital Lease Payable

On September 9, 2014, the City entered into a lease purchase agreement to finance the purchase of a utility tractor in the amount of \$85,196. \$17,039 of the lease was recorded as long-term debt within the governmental activities and \$68,157 was recorded as long-term debt in the business-type activities. The lease requires annual payments with interest at 3.25%.

CITY OF MT. VERNON, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2014

NOTE F – LONG-TERM LIABILITIES – GOVERNMENTAL ACTIVITIES (continued)

The City's lease/purchase agreement provides for the cancellation of the lease at the City's option on the renewal dates each year per State statute, however the City does not foresee exercising its option to cancel. Therefore, this lease is accounted for as a noncancellable capital lease in accordance with Governmental Accounting Standards Board (GASB) Section L20, "Leases".

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

| Year Ended December 31, | Principal | Interest | Total |
|----------------------------|------------------|-----------------|------------------|
| 2015 | \$ 15,967 | \$ 2,769 | \$ 18,736 |
| 2016 | 16,486 | 2,250 | 18,736 |
| 2017 | 17,022 | 1,714 | 18,736 |
| 2018 | 17,575 | 1,161 | 18,736 |
| 2019 | 18,146 | 590 | 18,736 |
| | <u>\$ 85,196</u> | <u>\$ 8,484</u> | <u>\$ 93,680</u> |
| Governmental Activities | | | |
| General Fund | \$ 17,039 | | |
| Business-type Activities | | | |
| Electric Fund | 17,039 | | |
| Sewer Fund | 34,079 | | |
| Water Fund | 17,039 | | |
| | <u>\$ 85,196</u> | | |

Loan Payable

During 2014, the City entered into a Sales Tax Rebate Agreement with Wal-mart Real Estate Business Trust ("Developer"). During the year ended December 31, 2014, the project was completed and the City began repayment. The purpose of the agreement is to have the Developer construct extensive public infrastructure improvements to allow construction and operation of a Wal-Mart retail store. The City has determined that the infrastructure improvements will substantially benefit the City by promoting and protecting the general health, safety and welfare of the City and will enhance overall economic activity, create job opportunities and increase the local tax base of the City. Per the agreement, the City is to reimburse the Developer \$540,207 for the improvements. \$216,083 was recorded as long-term-debt within the governmental activities and \$324,124 was recorded as long-term debt within the business-type activities. Quarterly payments consist of all sales tax revenue generated from Wal-Mart. Once the reimbursement is fully paid, the agreement shall terminate. Five year maturities for principal and interest are not presented since the future revenue from taxes and principal payments will vary from year to year. As of December 31, 2014, the outstanding balance on the loan in the governmental activities is \$183,248 and the balance in the business-type activities is \$274,872.

CITY OF MT. VERNON, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2014

NOTE F – LONG-TERM LIABILITIES – GOVERNMENTAL ACTIVITIES (continued)

The following table is a summary of the changes in Long-Term Liabilities – Governmental Activities:

| | Balance December 31, 2013 | Additions | Retirements | Balance December 31, 2014 | Amounts Due Within One Year |
|--|---------------------------------|---------------------|-------------------|---------------------------------|-----------------------------------|
| 1995 General Obligation Industrial Bonds | \$ 540,000 | \$ - | \$ 155,000 | \$ 385,000 | \$ 385,000 |
| 2014 Certificates of Participation | - | 927,000 | - | 927,000 | - |
| Capital Lease Payable | - | 17,039 | - | 17,039 | 15,967 |
| Loan Payable | - | 216,083 | 32,835 | 183,248 | - |
| Compensated Absences | 93,797 | 5,447 | - | 99,244 | - |
| Net pension obligation payable | 8,111 | - | 75 | 8,036 | - |
| | <u>\$ 641,908</u> | <u>\$ 1,165,569</u> | <u>\$ 187,910</u> | <u>\$ 1,619,567</u> | <u>\$ 400,967</u> |

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

The business-type activities long-term debt at December 31, 2014, consists of the 2008 Combined Waterworks and Sewerage System revenue bonds, the 2005, 2008, 2011, and 2014 Certificates of Participation, capital lease payable, loan payable, and compensated absences.

Water Fund

2005 Refunding Certificates of Participation

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 December 31, 2014, are as follows:

CITY OF MT. VERNON, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2014

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

| Year Ended December 31, | Principal | Interest | Total |
|----------------------------|---------------------|-------------------|---------------------|
| 2015 | \$ 230,000 | \$ 128,843 | \$ 358,843 |
| 2016 | 340,000 | 116,901 | 456,901 |
| 2017 | 360,000 | 102,236 | 462,236 |
| 2018 | 375,000 | 86,838 | 461,838 |
| 2019 | 395,000 | 70,706 | 465,706 |
| 2020 | 415,000 | 53,736 | 468,736 |
| 2021 | 430,000 | 36,035 | 466,035 |
| 2022 | 645,000 | 13,513 | 658,513 |
| | <u>\$ 3,190,000</u> | <u>\$ 608,808</u> | <u>\$ 3,798,808</u> |

2011 Refunding Certificates of Participation

During 2011, the City issued \$2,370,000 in Refunding Certificates of Participation to advance refund the Series 2003 Certificates of Participation. The 2011 certificates bear interest at 1.25% to 4.25%. Interest payments are due in semi-annual installments on February 1 and August 1 of each year with annual principal payments due August 1 of each year. The annual debt service requirements to amortize the principal on the 2011 Certificates of Participation outstanding at December 31, 2014, are as follows:

| Year Ended December 31, | Principal | Interest | Total |
|----------------------------|---------------------|-------------------|---------------------|
| 2015 | \$ 10,000 | \$ 81,795 | \$ 91,795 |
| 2016 | 95,000 | 81,525 | 176,525 |
| 2017 | 95,000 | 78,960 | 173,960 |
| 2018 | 100,000 | 76,110 | 176,110 |
| 2019 | 95,000 | 72,910 | 167,910 |
| 2020 | 105,000 | 69,680 | 174,680 |
| 2021 | 100,000 | 65,900 | 165,900 |
| 2022 | 595,000 | 62,050 | 657,050 |
| 2023 | 900,000 | 38,250 | 938,250 |
| | <u>\$ 2,095,000</u> | <u>\$ 627,180</u> | <u>\$ 2,722,180</u> |

CITY OF MT. VERNON, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2014

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

Electric Fund

2008 Certificates of Participation

During 2008, the City issued \$1,645,000 in Certificates of Participation. The certificates bear interest at 4.63%. Interest payments are due in semi-annual installments on May 1 and November 1 of each year with annual principal payments due May 1 of each year. The annual debt service requirements to amortize the principal on the 2008 Certificates of Participation outstanding at December 31, 2014, are as follows:

| Year Ended December 31, | Principal | Interest | Total |
|----------------------------|---------------------|-------------------|---------------------|
| 2015 | \$ 70,000 | \$ 58,569 | \$ 128,569 |
| 2016 | 70,000 | 55,329 | 125,329 |
| 2017 | 75,000 | 51,972 | 126,972 |
| 2018 | 80,000 | 48,383 | 128,383 |
| 2019 | 80,000 | 44,680 | 124,680 |
| 2020 | 85,000 | 40,861 | 125,861 |
| 2021 | 90,000 | 36,808 | 126,808 |
| 2022 | 95,000 | 32,525 | 127,525 |
| 2023 | 100,000 | 28,011 | 128,011 |
| 2024 | 100,000 | 23,381 | 123,381 |
| 2025 | 105,000 | 18,636 | 123,636 |
| 2026 | 110,000 | 13,658 | 123,658 |
| 2027 | 115,000 | 8,450 | 123,450 |
| 2028 | 125,000 | 2,894 | 127,894 |
| | <u>\$ 1,300,000</u> | <u>\$ 464,157</u> | <u>\$ 1,764,157</u> |

CITY OF MT. VERNON, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2014

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

Sewer Fund

2008 Combined Waterworks and Sewerage System Revenue Bonds

During 2008, the City issued \$5,715,000 in Combined Waterworks and Sewerage System Revenue Bonds. The bonds bear interest at 4.00% to 5.75%. Interest payments are due semi-annually on July 1 and January 1 of each year with principal payments due January 1 of each year. Annual debt service requirements to amortize the principal on the 2008 revenue bonds outstanding at December 31, 2014, are as follows:

| <u>Year Ended December 31,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|------------------------------------|---------------------|---------------------|---------------------|
| 2015 | \$ 185,000 | \$ 284,488 | \$ 469,488 |
| 2016 | 325,000 | 272,606 | 597,606 |
| 2017 | 325,000 | 256,763 | 581,763 |
| 2018 | 335,000 | 240,263 | 575,263 |
| 2019 | 350,000 | 222,700 | 572,700 |
| 2020 | 345,000 | 204,672 | 549,672 |
| 2021 | 350,000 | 186,469 | 536,469 |
| 2022 | 360,000 | 167,206 | 527,206 |
| 2023 | 370,000 | 147,131 | 517,131 |
| 2024 | 375,000 | 126,456 | 501,456 |
| 2025 | 385,000 | 105,128 | 490,128 |
| 2026 | 395,000 | 82,944 | 477,944 |
| 2027 | 405,000 | 59,944 | 464,944 |
| 2028 | 415,000 | 36,369 | 451,369 |
| 2029 | 425,000 | 12,219 | 437,219 |
| | <u>\$ 5,345,000</u> | <u>\$ 2,405,358</u> | <u>\$ 7,750,358</u> |

CITY OF MT. VERNON, MISSOURI
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

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

The following table is a summary of the changes in the Long-Term Debt – Business-Type Activities:

| | Balance December 31, 2013 | Additions | Retirements | Balance December 31, 2014 | Amounts Due Within One Year |
|---|---------------------------------|----------------------------|--------------------------|---------------------------------|-----------------------------------|
| ELECTRIC FUND | | | | | |
| Compensated Absences | \$ 8,315 | \$ 1,244 | \$ - | \$ 9,559 | \$ - |
| Capital Lease Payable | - | 17,039 | - | 17,039 | 3,193 |
| Certificates of Participation | | | | | |
| Series 2008 | 1,365,000 | - | 65,000 | 1,300,000 | 70,000 |
| Series 2014 | - | 115,875 | - | 115,875 | - |
| | <u>1,373,315</u> | <u>134,158</u> | <u>65,000</u> | <u>1,442,473</u> | <u>73,193</u> |
| SEWER FUND | | | | | |
| Capital Lease Payable | - | 34,079 | - | 34,079 | 6,387 |
| Certificates of Participation | | | | | |
| Series 2014 | - | 285,825 | - | 285,825 | - |
| Revenue Bonds | | | | | |
| Series 2008 | 5,440,000 | - | 95,000 | 5,345,000 | 185,000 |
| | <u>5,440,000</u> | <u>319,904</u> | <u>95,000</u> | <u>5,664,904</u> | <u>191,387</u> |
| Unamortized bond discount on 2008 bonds | (38,784) | - | (2,674) | (36,110) | - |
| | <u>5,401,216</u> | <u>319,904</u> | <u>92,326</u> | <u>5,628,794</u> | <u>191,387</u> |
| WATER FUND | | | | | |
| Compensated Absences | 12,422 | - | 374 | 12,048 | - |
| Capital Lease Payable | - | 17,039 | - | 17,039 | 3,193 |
| Certificates of Participation | | | | | |
| Series 2005 | 3,320,000 | - | 130,000 | 3,190,000 | 230,000 |
| Series 2011 | 2,115,000 | - | 20,000 | 2,095,000 | 10,000 |
| Series 2014 | - | 216,300 | - | 216,300 | - |
| Loan Payable | - | 324,124 | 49,252 | 274,872 | - |
| | <u>5,447,422</u> | <u>557,463</u> | <u>199,626</u> | <u>5,805,259</u> | <u>243,193</u> |
| TOTAL | <u><u>\$12,221,953</u></u> | <u><u>\$ 1,011,525</u></u> | <u><u>\$ 356,952</u></u> | <u><u>\$12,876,526</u></u> | <u><u>\$ 507,773</u></u> |

CITY OF MT. VERNON, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2014

NOTE H – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2014, was as follows:

| | Balance December 31, 2013 | Additions | Deletions | Balance December 31, 2014 |
|--|---------------------------------|-------------------|------------------|---------------------------------|
| GOVERNMENTAL ACTIVITIES | | | | |
| Non-depreciable Capital Assets | | | | |
| Land | \$ 1,221,961 | \$ - | \$ - | \$ 1,221,961 |
| Construction in progress | - | 630,628 | - | 630,628 |
| Total Non-depreciable Capital Assets | 1,221,961 | <u>\$ 630,628</u> | <u>\$ -</u> | 1,852,589 |
| Depreciable Capital Assets | | | | |
| Land improvements | 231,081 | \$ - | \$ - | 231,081 |
| Building and improvements | 1,813,003 | - | - | 1,813,003 |
| Major moveable equipment | 1,334,504 | 171,394 | 21,329 | 1,484,569 |
| Infrastructure | 33,976,692 | 493,003 | - | 34,469,695 |
| Total Depreciable Capital Assets | 37,355,280 | <u>\$ 664,397</u> | <u>\$ 21,329</u> | 37,998,348 |
| Less Accumulated Depreciation | | | | |
| Land improvements | 136,557 | \$ 11,554 | \$ - | 148,111 |
| Building and improvements | 353,608 | 34,605 | - | 388,213 |
| Major moveable equipment | 1,028,753 | 72,652 | 14,118 | 1,087,287 |
| Infrastructure | 24,852,122 | 692,552 | - | 25,544,674 |
| Total Accumulated Depreciation | 26,371,040 | <u>\$ 811,363</u> | <u>\$ 14,118</u> | 27,168,285 |
| Total Depreciable Capital Assets, net | <u>10,984,240</u> | | | <u>10,830,063</u> |
| Total Governmental Activities Capital Assets, net | <u>\$ 12,206,201</u> | | | <u>\$ 12,682,652</u> |

Depreciation expense was charged to functions as follows:

| | |
|------------------|-------------------|
| Administrative | \$ 7,366 |
| Police | 25,130 |
| Fire | 16,309 |
| Parks | 21,201 |
| Street | 690,046 |
| Transportation | 5,016 |
| Airport | 9,472 |
| Golf | 6,450 |
| Community center | 30,373 |
| | <u>\$ 811,363</u> |

CITY OF MT. VERNON, MISSOURI
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE H – CAPITAL ASSETS (continued)

| | Balance December 31, 2013 | Additions | Deletions | Balance December 31, 2014 |
|---|---------------------------------|-------------------|-------------|---------------------------------|
| BUSINESS-TYPE ACTIVITIES | | | | |
| Sewer Fund | | | | |
| Non-Depreciable Capital Assets | | | | |
| Land | \$ 53,808 | \$ - | \$ - | \$ 53,808 |
| Construction in Progress | 4,036 | 134,347 | - | 138,383 |
| Total Non-Depreciable Capital Assets | 57,844 | <u>\$ 134,347</u> | <u>\$ -</u> | 192,191 |
| Depreciable Capital Assets | | | | |
| Sewer plant | 14,993,261 | <u>\$ 51,818</u> | <u>\$ -</u> | 15,045,079 |
| Less Accumulated Depreciation | | | | |
| Sewer plant | <u>7,032,332</u> | <u>\$ 328,494</u> | <u>\$ -</u> | <u>7,360,826</u> |
| Total Depreciable Capital Assets, net | 7,960,929 | | | 7,684,253 |
| Electric Fund | | | | |
| Non-Depreciable Capital Assets | | | | |
| Land | 145,617 | \$ - | \$ - | 145,617 |
| Construction in Progress | - | 71,861 | - | 71,861 |
| Total Non-Depreciable Capital Assets | 145,617 | <u>\$ 71,861</u> | <u>\$ -</u> | 217,478 |
| Depreciable Capital Assets: | | | | |
| Electric plant | 6,748,132 | <u>\$ 42,730</u> | <u>\$ -</u> | 6,790,862 |
| Less Accumulated Depreciation | | | | |
| Electric plant | <u>2,635,446</u> | <u>\$ 190,829</u> | <u>\$ -</u> | <u>2,826,275</u> |
| Total Depreciable Capital Assets, net | 4,112,686 | | | 3,964,587 |
| Water Fund | | | | |
| Non-Depreciable Capital Assets | | | | |
| Construction in Progress | - | <u>\$ 128,241</u> | <u>\$ -</u> | 128,241 |
| Depreciable Capital Assets: | | | | |
| Water plant | 5,905,951 | <u>\$ 341,164</u> | <u>\$ -</u> | 6,247,115 |
| Less Accumulated Depreciation | | | | |
| Water plant | <u>2,037,119</u> | <u>\$ 221,424</u> | <u>\$ -</u> | <u>2,258,543</u> |
| Total Depreciable Capital Assets, net | <u>3,868,832</u> | | | <u>3,988,572</u> |
| Total Capital Assets - Business-Type Activities, net | <u>\$ 16,145,908</u> | | | <u>\$ 16,175,322</u> |

CITY OF MT. VERNON, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2014

NOTE I – 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 401(a) 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

Full-time employees of the City of Mt. Vernon do not contribute to the pension plan. The June 30th statutorily required contribution rates are 11.0% (General) and 10.4% (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 (APC) and Net Pension Obligation (NPO)

The subdivision's annual pension cost and net pension obligation for the current period were as follows:

| | |
|--|------------------------|
| Annual required contribution | \$ 124,599 |
| Interest on net pension obligation | 588 |
| Adjustment to annual required contribution | (663) |
| Annual pension cost | <u>124,524</u> |
| Actual contributions | <u>124,599</u> |
| Decrease in NPO | (75) |
| NPO beginning of period | <u>8,111</u> |
| NPO end of period | <u><u>\$ 8,036</u></u> |

CITY OF MT. VERNON, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2014

NOTE I – EMPLOYEE PENSION PLAN (continued)

The annual required contribution (ARC) was determined as part of the February 29, 2012, and February 28, 2013, annual actuarial valuation using the entry age actuarial cost method. The actuarial assumptions as of February 28, 2014, included: (a) a rate of return on the investment of present and future assets of 7.25% per year, compounded annually, (b) projected salary increases of 3.5% 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 75% of the RP-2000 Combined Healthy table set back 0 years for men and 0 years for women, and (e) post-retirement mortality based on 105% of the 1994 Group Annuity Mortality table set back 0 years for men and 0 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 as of February 29, 2012, was 17 years for the General division and 16 years for the Police division. The amortization period as of February 28, 2013, was 17 years for the General division and 16 years for the Police division.

Three-Year Trend Information

| Year Ended June 30 | Annual Pension Cost (APC) | Percentage of APC Contributed | Net Pension Obligation |
|--------------------------|---------------------------------|-------------------------------------|------------------------------|
| 2012 | \$ 119,332 | 99.9% | \$ 8,178 |
| 2013 | 123,500 | 100.1% | 8,111 |
| 2014 | 124,524 | 100.1% | 8,036 |

The actuarial valuation revealed the following relating to the financial position of the Plan:

| 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 |
|--------------------------------|--|---|--|--------------------------|-------------------------------------|--|
| 2/28/2014 | \$ 2,115,275 | \$ 2,131,089 | \$ 15,814 | 99% | \$ 1,095,361 | 1% |

The required schedule of funding progress immediately following the notes to the financial statements presents multi-year trend information about whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

NOTE J – 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 K – 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. \$390,000 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 December 31, 2014, \$62,908 has been recorded in the Debt Service Fund for the balance remaining on the note receivable.

NOTE L – 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 December 31, 2014, 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.

CITY OF MT. VERNON, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2014

NOTE M – PLEDGED REVENUES

Sewer Fund

The City has pledged future sewer customer revenues to repay the 2008 Combined Waterworks and Sewerage Bonds issued to improve and expand the sewer system. The bonds are payable solely from sewer customer net revenues and are payable through 2029. Net revenues are revenues of the system less expenses of the system with the exception of depreciation. The total principal and interest remaining to be paid on the bonds is \$7,750,358. Principal and interest paid for the current year and total customer net revenues were \$385,669 and \$323,473, respectively. In addition, interest subsidies paid \$202,338 of the total interest expense.

NOTE N – INTERFUND TRANSFERS

Transfers between funds of the City for the year ended December 31, 2014, were as follows:

| | <u>Transfers In</u> | <u>Transfers Out</u> |
|------------------------------------|---------------------|----------------------|
| General Fund | \$ 819,269 | \$ - |
| Capital Improvement Sales Tax Fund | - | 310,775 |
| Industrial Development Fund | - | - |
| Debt Service Fund | - | - |
| Electric Fund | - | 848,000 |
| Water Fund | 270,571 | - |
| Sewer Fund | 68,935 | - |
| | <u>\$ 1,158,775</u> | <u>\$ 1,158,775</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
 December 31, 2014

NOTE O – COMMITMENTS

At December 31, 2014, the City had the following commitments:

- Blevins Asphalt Construction Co. in the amount of \$6,357 for services related to the Commercial Park Street Improvement Project.
- HDR Engineering in the amount of \$60,521 for engineering services for various City projects.
- Southard Construction in the amount of \$48,847 for the State Route 39 utility extension project.

On December 30, 2014, the City purchased property from the University of Missouri Columbia, in the amount of \$100. The City did not take ownership of the property until January 1, 2015. The City will receive monthly rental payments from the Department of Veterans Affairs for the property in the amount of \$191,514 through June 30, 2015, per an agreement entered into December 31, 2014. The City also entered into an agreement on December 31, 2014, for property management services with BB Management, LLC to maintain the property with monthly payments in the amount of \$126,514 due through June 30, 2015.

NOTE P – INTERNAL BALANCES

Internal balances as of December 31, 2014, consisted of the following:

| | General Fund | Capital Improvement Sales Tax Fund | Water Fund |
|-------------------|-------------------|---|-------------------|
| | <u> </u> | <u> </u> | <u> </u> |
| Internal balances | \$ (28,730) | \$ (20,522) | \$ 49,252 |
| | <u> </u> | <u> </u> | <u> </u> |

During the course of its operations, the City has numerous transactions between funds to finance operations, provide services, construct assets, and service debt. To the extent that certain transactions between funds had not been paid or received as of December 31, 2014, balances of interfund amounts receivable or payable have been recorded within the fund financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF MT. VERNON, MISSOURI
 SCHEDULE OF FUNDING PROGRESS
 Year Ended December 31, 2014

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 |
|--------------------------------|--|---|--|--------------------------|-------------------------------------|--|
| 2/29/2012 | \$ 1,517,762 | \$ 1,796,944 | \$ 279,182 | 84% | \$ 979,933 | 28% |
| 2/28/2013 | 1,706,935 | 1,909,413 | 202,478 | 89% | 1,103,725 | 18% |
| 2/28/2014 | 2,115,275 | 2,131,089 | 15,814 | 99% | 1,095,361 | 1% |

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, 2011, 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 December 31, 2014

| | Original Budget | Final Budget | Actual | Variance With Final Budget |
|----------------------------|--------------------|------------------|------------------|----------------------------------|
| REVENUES | | | | |
| Taxes | | | | |
| City sales tax | \$ 780,000 | \$ 933,900 | \$ 933,900 | \$ - |
| Motor vehicle tax | 162,000 | 173,294 | 173,294 | - |
| Utility franchise tax | 90,000 | 93,807 | 93,807 | - |
| Other taxes | 28,000 | 31,808 | 31,808 | - |
| | <u>1,060,000</u> | <u>1,232,809</u> | <u>1,232,809</u> | <u>-</u> |
| Licenses and Permits | | | | |
| Occupational licenses | 6,500 | 6,494 | 6,494 | - |
| Building permits | 9,000 | 16,287 | 16,287 | - |
| | <u>15,500</u> | <u>22,781</u> | <u>22,781</u> | <u>-</u> |
| Intergovernmental Revenues | | | | |
| Grants | 236,000 | 254,640 | 254,640 | - |
| Charges for Services | | | | |
| Taxi | 11,000 | 10,451 | 10,451 | - |
| Animal control | 500 | 561 | 561 | - |
| Pool | 20,000 | 18,049 | 18,049 | - |
| Park | 6,000 | 5,870 | 5,870 | - |
| Golf fees | 99,000 | 89,988 | 89,988 | - |
| Airport hanger rent | 16,260 | 18,392 | 18,392 | - |
| Community center | 15,000 | 21,971 | 21,971 | - |
| Cemetery | 500 | 2,125 | 2,125 | - |
| | <u>168,260</u> | <u>167,407</u> | <u>167,407</u> | <u>-</u> |
| Fines and forfeitures | | | | |
| City court fines | 37,000 | 34,543 | 34,543 | - |
| Miscellaneous | | | | |
| Interest | 850 | 533 | 533 | - |
| Donations | 7,000 | 7,000 | 7,000 | - |
| Other | 1,675 | 39,006 | 39,006 | - |
| | <u>9,525</u> | <u>46,539</u> | <u>46,539</u> | <u>-</u> |
| TOTAL REVENUES | <u>1,526,285</u> | <u>1,758,719</u> | <u>1,758,719</u> | <u>-</u> |

CITY OF MT. VERNON, MISSOURI
 BUDGETARY COMPARISON SCHEDULE – GENERAL FUND (continued)
 Year Ended December 31, 2014

| | Original Budget | Final Budget | Actual | Variance With Final Budget |
|---|--------------------|---------------------|---------------------|----------------------------------|
| EXPENDITURES | | | | |
| Current | | | | |
| Administrative | 104,692 | 74,414 | 74,414 | - |
| Police | 635,723 | 629,176 | 629,176 | - |
| Municipal court | 44,108 | 36,880 | 36,880 | - |
| Fire | 64,840 | 53,657 | 53,657 | - |
| Animal control | 12,325 | 8,240 | 8,240 | - |
| Parks | 328,570 | 236,875 | 236,875 | - |
| Community center | 86,817 | 63,486 | 63,486 | - |
| Street | 625,246 | 1,476,709 | 1,476,709 | - |
| Planning and zoning | 71,368 | 58,399 | 58,399 | - |
| Transportation | 97,510 | 81,902 | 81,902 | - |
| Airport | 58,624 | 11,892 | 11,892 | - |
| Golf | 283,481 | 246,714 | 246,714 | - |
| Economic development | 38,386 | 28,598 | 28,598 | - |
| Debt service | | | | |
| Fees | - | 37,080 | 37,080 | - |
| TOTAL EXPENDITURES | 2,451,690 | 3,044,022 | 3,044,022 | - |
| (DEFICIT) OF REVENUES OVER EXPENDITURES | | | | |
| | (925,405) | (1,285,303) | (1,285,303) | - |
| OTHER FINANCING SOURCES | | | | |
| Certificate of Participation proceeds | - | 927,000 | 927,000 | - |
| Loan proceeds | - | 216,083 | 216,083 | - |
| Lease proceeds | - | 17,039 | 17,039 | - |
| Operating transfers in | 955,000 | 819,269 | 819,269 | - |
| TOTAL OTHER FINANCING SOURCES | 955,000 | 1,979,391 | 1,979,391 | - |
| EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES | | | | |
| | 29,595 | 694,088 | 694,088 | - |
| FUND BALANCE, January 1 | 321,659 | 321,659 | 321,659 | - |
| FUND BALANCE, December 31 | <u>\$ 351,254</u> | <u>\$ 1,015,747</u> | <u>\$ 1,015,747</u> | <u>\$ -</u> |

CITY OF MT. VERNON, MISSOURI
 BUDGETARY COMPARISON SCHEDULE – CAPITAL IMPROVEMENT SALES TAX FUND
 Year Ended December 31, 2014

| | Original Budget | Final Budget | Actual | Variance With Final Budget |
|---|--------------------|-----------------|------------|----------------------------------|
| REVENUES | | | | |
| Taxes | | | | |
| City sales tax | \$ 266,000 | \$ 311,526 | \$ 311,526 | \$ - |
| Miscellaneous | | | | |
| Interest | 3,000 | 1,706 | 1,706 | - |
| TOTAL REVENUES | 269,000 | 313,232 | 313,232 | - |
| EXPENDITURES | | | | |
| Capital improvement | - | - | - | - |
| TOTAL EXPENDITURES | - | - | - | - |
| EXCESS OF REVENUES OVER EXPENDITURES | 269,000 | 313,232 | 313,232 | - |
| OTHER FINANCING (USES) | | | | |
| Operating transfers (out) | (353,206) | (310,775) | (310,775) | - |
| EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES AND OTHER FINANCING (USES) | (84,206) | 2,457 | 2,457 | - |
| FUND BALANCE, January 1 | 755,188 | 755,188 | 755,188 | - |
| FUND BALANCE, December 31 | \$ 670,982 | \$ 757,645 | \$ 757,645 | \$ - |

CITY OF MT. VERNON, MISSOURI
 BUDGETARY COMPARISON SCHEDULE – INDUSTRIAL DEVELOPMENT FUND
 Year Ended December 31, 2014

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance With Final Budget</u> |
|---|----------------------------|--------------------------|--------------------------|---|
| REVENUES | | | | |
| Charges for services | | | | |
| Rents | \$ 700 | \$ 2,117 | \$ 2,117 | \$ - |
| Miscellaneous | | | | |
| Interest | - | 463 | 463 | - |
| Other | - | 2,860 | 2,860 | - |
| TOTAL REVENUES | <u>700</u> | <u>5,440</u> | <u>5,440</u> | <u>-</u> |
| EXPENDITURES | | | | |
| Current | | | | |
| Industrial development | - | 23,118 | 23,118 | - |
| TOTAL EXPENDITURES | <u>-</u> | <u>23,118</u> | <u>23,118</u> | <u>-</u> |
| EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES | | | | |
| | 700 | (17,678) | (17,678) | - |
| FUND BALANCE, January 1 | <u>199,212</u> | <u>199,212</u> | <u>199,212</u> | <u>-</u> |
| FUND BALANCE, December 31 | <u><u>\$ 199,912</u></u> | <u><u>\$ 181,534</u></u> | <u><u>\$ 181,534</u></u> | <u><u>\$ -</u></u> |

CITY OF MT. VERNON, MISSOURI
NOTE TO BUDGETARY COMPARISON SCHEDULES
Year Ended December 31, 2014

Budgets and Budgetary Accounting

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

1. Prior to January, Administration submits to the Board of Aldermen a proposed operating budget for the fiscal year commencing the following January 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 November or early December to obtain taxpayers' comments on the proposed budget and tax levy.
3. Prior to January 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



**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, Missouri
Mt. Vernon, Missouri

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, business-type activities, and each major fund of the City of Mt. Vernon, Missouri, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City of Mt. Vernon, Missouri's basic financial statements, and have issued our report thereon, dated April 2, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Mt. Vernon, Missouri's internal control over financial reporting (internal control) to determine the audit procedures that 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 Mt. Vernon, Missouri's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified a certain deficiency in internal control that we consider to be a material weakness.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and responses to be a material weakness. It is identified as item 2014-001.

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*.

City of Mt. Vernon, Missouri's Response to Findings

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 results of that testing, and not to provide an opinion on the effectiveness of the City of Mt. Vernon, Missouri'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 of Mt. Vernon, Missouri's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPM CPAs, PC

KPM CPAs, PC
Springfield, Missouri
April 2, 2015

CITY OF MT. VERNON, MISSOURI
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended December 31, 2014

2014-001 Segregation of duties

Condition: 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.

Criteria: Duties should be segregated so that no one employee has access to both physical assets and the related accounting records, or to all phases of a transaction.

Effect: Risk is present that errors or irregularities in amounts that would be material to the basic financial statements may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Recommendation: We realize that because of limited resources and personnel, management may not be able to achieve a proper segregation of duties; however, our professional standards require that we bring this lack of segregation of duties to your attention in this report.

Response: The limited number of available personnel prohibits segregation of incompatible duties.