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**STATE BOARD OF ACCOUNTS**  
**302 West Washington Street**  
**Room E418**  
**INDIANAPOLIS, INDIANA 46204-2769**

EXAMINATION REPORT  
OF  
CITY OF MOUNT VERNON  
POSEY COUNTY, INDIANA  
January 1, 2006 to December 31, 2006



**FILED**  
05/04/2007



## TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Officials .....	2
Independent Accountant's Report .....	3
Financial Information:	
Schedule of Receipts, Disbursements, and Cash and Investment Balances .....	4
Notes to Financial Information.....	5-6
Supplementary Information:	
Schedule of Capital Assets .....	7
Schedule of Long-Term Debt.....	8
Examination Results and Comments:	
Delinquent Wastewater Accounts .....	9
Accounts Receivable .....	9
Accountable Items .....	10
Capital Asset Records .....	10
Approval of Forms .....	10
Exit Conference .....	11

OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Cristi Wolfe	01-01-04 to 12-31-07
Mayor	Rosemary Knowles	01-01-04 to 12-31-07
President of the Common Council	Thomas Rueger	01-01-06 to 12-31-07
President of the Board of Public Works	Rosemary Knowles	01-01-06 to 12-31-07
President of the Utility Service Board	Terry Cooper	01-01-06 to 12-31-07



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE CITY OF MOUNT VERNON, POSEY COUNTY, INDIANA

We have examined the financial information presented herein of the City of Mount Vernon (City), for the period of January 1, 2006 to December 31, 2006. The City's management is responsible for the financial information presented herein. Our responsibility is to express an opinion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence supporting the financial information presented herein and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, the financial information referred to above presents fairly, in all material respects, the financial information of the City for the year ended December 31, 2006, based on the criteria set forth in the uniform compliance guidelines established by the Indiana State Board of Accounts.

The Schedule of Capital Assets and Schedule of Long-Term Debt, as listed in the Table of Contents, are presented for additional analysis and are not a required part of the basic financial information. They have not been subjected to the examination procedures applied to the basic financial information, and accordingly, we express no opinion on them.

STATE BOARD OF ACCOUNTS

April 17, 2007

CITY OF MOUNT VERNON  
SCHEDULES OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES  
ALL GOVERNMENTAL, PROPRIETARY, AND FIDUCIARY FUND TYPES  
As Of And For The Year Ended December 31, 2006

	Cash and Investments 01-01-06	Receipts	Disbursements	Cash and Investments 12-31-06
<b>Governmental Funds:</b>				
General	\$ 1,250,677	\$ 2,568,159	\$ 2,545,342	\$ 1,273,494
Motor Vehicle Highway	375,847	638,504	678,054	336,297
Motor Vehicle Highway II	46,479	12,593	2,109	56,963
Local Road and Street	33,288	32,837	36,562	29,563
Park and Recreation	243,004	575,811	504,706	314,109
Park and Recreation Nonreverting	10,987	23,795	24,745	10,037
Law Enforcement Continuing Education	2,997	4,089	1,673	5,413
Rainy Day	-	74,750	49,448	25,302
Emergency Warning System	9,750	25	-	9,775
Donation	2,010	1,780	1,352	2,438
Parking Meter	3,370	-	-	3,370
Abandoned Vehicle	3,459	-	-	3,459
Project Fun	227	-	209	18
State Gaming	127,001	47,568	10,538	164,031
Survival Life Trailer	32	-	-	32
BB Pool Lights	235	500	475	260
Downtown Planning	-	31,500	31,500	-
Crow Population	-	80	-	80
Cumulative Capital Improvement	48,079	26,715	47,376	27,418
Cumulative Capital Development	44,698	72,922	66,617	51,003
<b>Proprietary Funds:</b>				
Water Utility - Operating	160,942	4,080,446	3,989,867	251,521
Water Utility - Bond and Interest 1997	50,587	478,109	487,706	40,990
Water Utility - State Revolving	60,451	219,803	233,966	46,288
Water Utility - Customer Deposit	51,608	14,472	2,448	63,632
Water Utility - Debt Service Reserve	722,055	47,333	-	769,388
Water Utility - Improvement	3,066	177,000	50,863	129,203
Wastewater Utility - Operating	174,544	2,310,485	2,241,827	243,202
Wastewater Utility - Bond and Interest	176,902	186,043	326,218	36,727
Wastewater Utility - State Revolving	91,880	122,219	217,611	(3,512)
Wastewater Utility - Customer Deposit	19,442	6,914	1,371	24,985
Wastewater Utility - Debt Service Reserve	288,631	-	288,631	-
Wastewater Utility - Sinking	-	288,631	-	288,631
Wastewater Utility - Debt Reserve	-	233,742	-	233,742
Wastewater Utility - Improvement	31,658	195,395	42,426	184,627
<b>Fiduciary Funds:</b>				
Levy Excess	12,436	-	12,436	-
Police Officers' Pension	150,641	96,532	112,536	134,637
Firefighters' Pension	113,380	85,896	96,579	102,697
Insurance	615	149,236	149,765	86
Payroll	16,510	2,689,721	2,687,847	18,384
<b>Totals</b>	<b>\$ 4,327,488</b>	<b>\$ 15,493,605</b>	<b>\$ 14,942,803</b>	<b>\$ 4,878,290</b>

The accompanying notes are an integral part of the schedules.

CITY OF MOUNT VERNON  
NOTES TO FINANCIAL INFORMATION

Note 1. Introduction

The City was established under the laws of the State of Indiana. The City provides the following services: public safety, health and social services, culture and recreation, general administrative services, water and wastewater.

Note 2. Fund Accounting

The City uses funds to report on its cash and investments and the results of its operations on a cash basis. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities.

Note 3. Budgets

The operating budget is initially prepared and approved at the local level. In addition, funds for which property taxes are levied or highway use taxes are received are subject to final approval by the Indiana Department of Local Government Finance.

Note 4. Property Taxes

Property taxes levied are collected by the County Treasurer and are distributed to the City in June and December. State statute (IC 6-1.1-17-16) requires the Indiana Department of Local Government Finance to establish property tax rates and levies by February 15. These rates were based upon the preceding year's March 1 (lien date) assessed valuations adjusted for various tax credits. Taxable property is assessed at 100% of the true tax value (determined in accordance with rules and regulations adopted by the Indiana Department of Local Government Finance). Taxes may be paid in two equal installments which become delinquent if not paid by May 10 and November 10, respectively. All property taxes collected by the County Treasurer and available for distribution were distributed to the City on or prior to December 31 of the year collected.

Note 5. Deposits and Investments

Deposits, made in accordance with Indiana Code 5-13, with financial institutions in the State of Indiana at year end were entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

State statute (IC 5-13-9) authorizes the City to invest in securities including, but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

CITY OF MOUNT VERNON  
NOTES TO FINANCIAL INFORMATION  
(Continued)

Note 6. Pension Plan

Public Employees' Retirement Fund

Plan Description

The City contributes to the Indiana Public Employees' Retirement Fund (PERF), a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in this defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the PERF Board, most requirements of the system, and give the City authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of members' contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

PERF administers the plan and issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by contacting:

Public Employees' Retirement Fund  
Harrison Building, Room 800  
143 West Market Street  
Indianapolis, IN 46204  
Ph. (317) 233-4162

Funding Policy and Annual Pension Cost

The contribution requirements of the plan members for PERF are established by the Board of Trustees of PERF.

Note 7. Subsequent Events

Water Utility

On January 18, 2007, the Water Utility entered into a master equipment lease/purchase agreement for \$1,944,281 for the purchase of water meters and utility billing systems upgrades.

CITY OF MOUNT VERNON  
 SUPPLEMENTARY INFORMATION  
 SCHEDULE OF CAPITAL ASSETS  
 For The Year Ended December 31, 2006

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

<u>Primary Government</u>	<u>Ending Balance</u>
Governmental activities:	
Capital assets, not being depreciated:	
Land	\$ 338,651
Buildings	1,546,758
Improvements other than buildings	139,604
Machinery and equipment	<u>2,933,855</u>
 Total governmental activities, capital assets not being depreciated	 \$ <u><u>4,958,868</u></u>
<u>Primary Government</u>	<u>Ending Balance</u>
Business-type activities	*

\* - The Water and Wastewater Utilities do not maintain capital asset records.

CITY OF MOUNT VERNON  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF LONG-TERM DEBT  
For The Year Ended December 31, 2006

The City of Mount Vernon has entered into the following debt obligations:

Description of Asset	Ending Balance	Due Within One Year
Governmental Activities:		
Capital lease:		
Fire truck	\$ 398,518	\$ 66,618
Note payable	<u>100,000</u>	<u>50,000</u>
Total governmental activities long-term debt	<u>\$ 498,518</u>	<u>\$ 116,618</u>
Business-type Activities:		
Water Utility		
Capital lease:		
Backhoe	\$ 18,876	\$ 9,253
Revenue bonds:		
1997 revenue bonds	2,150,000	185,000
State revolving loan:		
2001 water rehabilitation projects	<u>*</u>	<u>*</u>
Total Water Utility	<u>2,168,876</u>	<u>194,253</u>
Wastewater Utility		
Revenue bonds:		
2001 refunding revenue bonds	715,000	160,000
State revolving loan:		
2001 wastewater rehabilitation projects	<u>**</u>	<u>**</u>
Total Wastewater Utility	<u>715,000</u>	<u>160,000</u>
Total business-type activities long-term debt	<u>\$ 2,883,876</u>	<u>\$ 354,253</u>

\* - Under the terms of the State Revolving Loan Fund, revenue bonds have been purchased by the Indiana Bond Bank, the proceeds of which are set aside to finance the construction of various water rehabilitation projects. Funds are loaned to the Utility as construction costs are accrued to the maximum allowed. The 2001 loan established a maximum draw of \$3,735,000. As of December 31, 2006, the loan principal amount drawn was \$3,087,991. Principal repayments began in 2003 with \$475,000 paid to date. Annual debt service requirements for the 2001 loan will not be determined until planned construction projects are completed.

\*\* - Under the terms of the State Revolving Loan Fund, revenue bonds have been purchased by the Indiana Bond Bank, the proceeds of which are set aside to finance the construction of various wastewater rehabilitation projects. Funds are loaned to the Utility as construction costs are accrued to the maximum allowed. The 2001 loan established a maximum draw of \$1,960,000. As of December 31, 2006, the loan principal amount drawn was \$1,929,118. Principal repayments began in 2003 with \$290,000 paid to date. Annual debt service requirements for the 2001 loan will not be determined until planned construction projects are completed.

CITY OF MOUNT VERNON  
EXAMINATION RESULTS AND COMMENTS

DELINQUENT WASTEWATER ACCOUNTS (Applies to Wastewater Utility)

As stated in prior examination reports, delinquent wastewater fees and penalties had not been recorded with the County Recorder nor were they certified to the County Auditor which would result in a lien against the property.

Indiana Code 36-9-23-33 states in part:

"(b) Except as provided in subsection (l), the officer charged with the collection of fees and penalties assessed under this chapter shall enforce their payment. As often as the officer determines is necessary in a calendar year, the officer shall prepare either of the following:

- (1) a list of the delinquent fees and penalties that are enforceable under this section, which must include the following:
  - (A) the name or names of the owner or owners of each lot or parcel of real property on which fees are delinquent;
  - (B) a description of the premises, as shown by the records of the county auditor; and
  - (C) the amount of the delinquent fees, together with the penalty; or
- (2) an individual instrument for each lot or parcel of real property on which the fees are delinquent."

"(c) The officer shall record a copy of each list or each individual instrument with the county recorder. . . ."

"(e) Using the lists and instruments prepared under subsection (b) and recorded under subsection (c), the officer shall, not later than ten (10) days after the list or each individual instrument is recorded under subsection (c), certify to the county auditor a list of the liens that remain unpaid for collection in the next May. . . ."

ACCOUNTS RECEIVABLE (Applies to Water and Wastewater Utilities)

As stated in prior examination reports, officials have not established and adopted adequate written collection policies for addressing uncollectible Water and Wastewater accounts. Presently, accounts that are 90 days past due are assigned to a collection agency but not deleted from the active account status; however, this procedure has not been established by a written policy.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CITY OF MOUNT VERNON  
EXAMINATION RESULTS AND COMMENTS  
(Continued)

ACCOUNTABLE ITEMS (Applies to Water and Wastewater Utilities)

We noted a loss of approximately 28% in the amount of water pumped by the Water Utility as compared to water consumption billed to customers for the year 2006. Officials are aware of many leaks and problems with water meters. Because the Wastewater charges are computed on water consumption, the Wastewater Utility is losing revenue as well.

Similar comments have appeared in the past 2 reports.

Goods for sale, billings, and other collections are considered accountable items. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CAPITAL ASSET RECORDS (Applies to Water and Wastewater Utilities)

As stated in prior examination reports, information presented for examination indicates the Water and Wastewater Utilities do not maintain sufficient detailed records of capital assets for their Capital Asset accounts. Upon purchase, the costs of the capital assets are added to an aggregate Capital Asset account in the General Ledger. However, records providing historical costs for some of the Utility's capital assets are not available, and records classifying and summarizing the Utility's capital assets are incomplete. Deletions or disposals of capital assets are not recorded.

Every governmental unit should have a complete inventory of all capital assets owned which reflect their acquisition value. Such inventory should be recorded in the Capital Assets Ledger. A complete inventory should be taken every year for good internal control and for verifying account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

APPROVAL OF FORMS (Applies to Water and Wastewater Utilities)

As stated in the prior examination report, the Water and Wastewater Utilities were using billing/accounts receivable software that generates a form that has not been approved for use by the State Board of Accounts in lieu of the prescribed form.

The prescribed form not in use is:

Form 322 (Rev 1966) Consumer's Ledger - Municipal Water and Sewage Utility Combined

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CITY OF MOUNT VERNON  
EXIT CONFERENCE

The contents of this report were discussed on April 19, 2007, with Cristi Wolfe, Clerk-Treasurer; Rosemary Knowles, Mayor; Rita E. Askren, Council member; Rodney Givens, Wastewater Superintendent; and Wanda Bennett, Utility Bookkeeper. The officials concurred with our findings.