

**City of Mount Vernon, Texas**

**Financial Statements  
And Independent Auditor's Report**

**For the year ended September 30, 2011**

**City of Mount Vernon, Texas**  
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Year ended September 30, 2011

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**CITY OF MOUNT VERNON**

**OFFICIAL DIRECTORY**

**Mavor**

**Margaret Sears**

**Council**

**Darlene Hatcher**

**B. F. Hicks**

**Libby Milton**

**Nathan Reves**

**Jasper Scott**

**City Administrator**

**Eddie Turner**

**City Secretary**

**Tina Rose**



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**UNQUALIFIED OPINION ON BASIC FINANCIAL STATEMENTS  
ACCOMPANIED BY REQUIRED SUPPLEMENTARY INFORMATION AND OTHER  
SUPPLEMENTARY INFORMATION**

Independent Auditor's Report

**Honorable Mayor and City Council  
City of Mount Vernon, Texas**

We have audited the accompanying financial statements of the government activities, the business type activities, each major fund, and the aggregate remaining fund information of City of Mount Vernon, Texas as of and for the year ended September 30, 2011, which collectively comprise the basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's administrators. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the government activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Mount Vernon, Texas, as of September 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2011 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. 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 compliance. The report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 8 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City's financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the financial statements. The accompanying schedules of federal program projects are presented for purposes of additional and are not required part of the financial statements. The schedules of expenditures of federal awards and federal program projects are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Respectfully submitted,

*Arnold, Walker, Arnold & Co., P.C.*

Arnold, Walker, Arnold & Co., P.C.

December 2, 2011

**City of Mount Vernon, Texas**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

As management of the City of Mount Vernon, Texas, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities and performance for the year ended September 30, 2011. The information presented here should be read in conjunction with the independent auditor's report and the City's financial statements.

**FINANCIAL HIGHLIGHTS**

The City's total combined net assets were approximately \$10.1 million at September 30, 2011. Approximately \$8.0 million of the net assets was invested in capital assets, net of related debt. During the year, the City's expenses were approximately \$3.2 million. Approximately \$4.6 million was generated in taxes, charges for services and other revenues, inclusive of grant proceeds of \$1.8 million.

The unrestricted general fund balance was approximately \$79 thousand at September 30, 2011.

During the year, approximately \$141 thousand of principal was paid on debt.

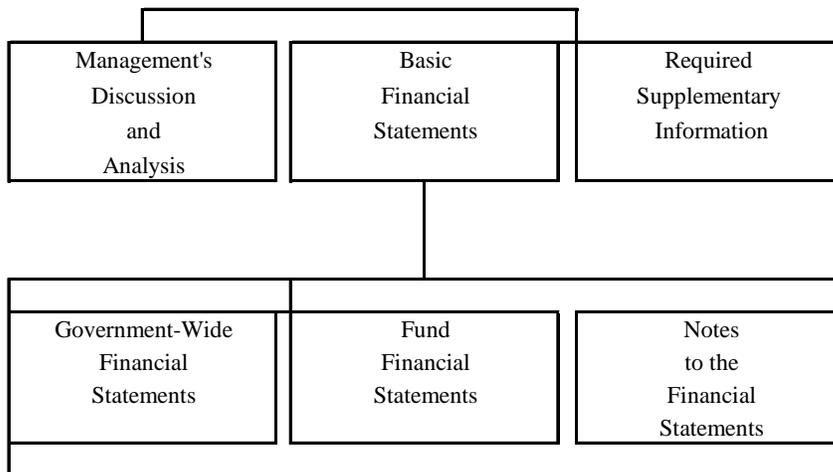
Approximately 96% of the taxes levied for 2010-11 were collected by September 30, 2011.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report consists of three parts--*management's discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are *government-wide financial statements* that provide information about the City's activities as a whole and present a longer-term view of the City's property and debt obligations. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the City's operations in *more detail* than the government-wide statements.
  - The *governmental funds* statements tell how *general government* services were financed in the *short term* as well as what remains for future spending.
  - *Proprietary fund* statements offer *short- and long-term* financial information about the activities the government operates *like businesses*, such as the water and sewer operations.

Figure A-1. Required Components of the City's Annual Financial Report



Summary ⇄ Detail

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements. Figure A-1 shows how the required parts of this annual report are arranged and related to one another.

**City of Mount Vernon, Texas**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

Figure A-2 summarizes the major features of the City's financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Figure A-2. Major Features of the City's Government-wide Fund Financial Statements			
<i>Type of Statements</i>	Government-wide	Governmental Funds	Proprietary Funds
<i>Scope</i>	Entire City's government (except fiduciary funds) and the City's component units	The activities of the City that are not proprietary or fiduciary	Activities the City operates similar to private businesses: self insurance
<i>Required financial statements</i>	Statement of net assets	Balance sheet	Statement of net assets
	Statement of activities	Statement of revenues, Expenditures & changes in fund balances	Statement of revenues, expenses and changes in fund net assets
			Statement of cash flows
<i>Accounting basis and measurement focus</i>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
<i>Type of asset/liability information</i>	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter, no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term
<i>Type of inflow/outflow information</i>	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon after	All revenues and expenses during year, regardless of when cash is received or paid

**Government-wide Statements**

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes *all* of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's *net assets* and how they have changed. Net assets—the difference between the City's assets and liabilities—is one way to measure the City's financial health or *position*.

- Over time, increases or decreases in the City's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the City, consideration should be given to additional nonfinancial factors such as changes in the City's tax base.

The government-wide financial statements of the City include the *Governmental activities*. Most of the City's basic services are included here, such as public safety, streets and bridges, judicial and general administration. Property taxes and charges for services finance most of these activities.

**City of Mount Vernon, Texas**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Fund Financial Statements**

The fund financial statements provide more detailed information about the City's most significant *funds*-not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and by bond covenants.
- The City Council establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The City has two kinds of funds:

- *Governmental funds*-Most of the City's basic services are included in governmental funds, which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information is provided that explains the relationship (or differences) between them.
- *Proprietary funds*-Services for which the City charges customers a fee are generally reported in enterprise funds. Enterprise funds, like the government-wide statements, provide both long-term and short-term financial information.

**FINANCIAL ANALYSIS OF THE CITY AS A WHOLE**

**Net assets.**

The City's combined net assets were approximately \$10.1 million at September 30, 2011.

Table A-1  
The City's Net Assets  
(In thousands)

	Governmental Activities		Business Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Current and other assets	1,001	994	1,489	1,359	2,490	2,353
Capital and non-current assets	2,140	2,162	6,914	5,713	9,054	7,875
<b>TOTAL ASSETS</b>	<b>3,141</b>	<b>3,156</b>	<b>8,403</b>	<b>7,072</b>	<b>11,544</b>	<b>10,228</b>
Long-term liabilities	680	796	400	425	1,080	1,221
Other liabilities	37	31	288	178	325	209
<b>TOTAL LIABILITIES</b>	<b>717</b>	<b>827</b>	<b>688</b>	<b>603</b>	<b>1,405</b>	<b>1,430</b>
Invested in capital assets net of related debt	1,460	1,366	6,514	5,288	7,974	6,654
Restricted	885	840	14	14	899	854
Unrestricted (deficit)	79	123	1,187	1,167	1,266	1,290
<b>TOTAL NET ASSETS</b>	<b>2,424</b>	<b>2,329</b>	<b>7,715</b>	<b>6,469</b>	<b>10,139</b>	<b>8,798</b>

Net assets invested in capital assets net of related debt reflects the book value of the City's capital assets in excess of the debt which financed those assets.

Net assets of the City increased by approximately \$1.3 million for the fiscal year ended September 30, 2011. Construction in progress under grants resulted in an increase in the City's net assets.

Restricted net assets are for debt service, equipment, construction and development, and perpetual care.

**City of Mount Vernon, Texas**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Changes in net assets.**

The City's total revenues (exclusive of transfers) were approximately \$4.6 million. Approximately 27% of this came from property taxes, sales taxes and other taxes. Approximately 33% came from charges for services. 39% came from grants.

The total cost of all programs was \$3.2 million. Approximately 56% of this was for government and public safety. 44% was for sanitation, water and sewer.

Table A-2  
The City's Changes in Net Assets  
(In thousands)

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
<b>Revenues</b>						
<u>Program Revenues</u>						
Charges for service	512	525	994	940	1,506	1,465
Capital grants/contributions	389	11	1,407	978	1,796	989
<u>General Revenues</u>						
Property taxes	651	710	-	-	651	710
Sales and other taxes	563	535	-	-	563	535
Interest income	4	5	11	16	15	21
Transfers in & other	24	187	6	-	30	187
<b>Total revenues</b>	<u>2,143</u>	<u>1,973</u>	<u>2,418</u>	<u>1,934</u>	<u>4,561</u>	<u>3,907</u>
<b>Expenses</b>						
Government and public safety	1,811	1,203	-	-	1,811	1,203
Water, sewer & sanitation	-	295	1,172	1,183	1,172	1,478
Unallocated depreciation	199	156	-	-	199	156
Interest on debt	34	37	-	-	34	37
Transfers out	4	-	-	53	4	53
<b>Total expenses</b>	<u>2,048</u>	<u>1,691</u>	<u>1,172</u>	<u>1,236</u>	<u>3,220</u>	<u>2,927</u>
<b>Increase (decrease) in net assets</b>	95	282	1,246	698	1,341	980
<b>Beginning net assets</b>	<u>2,329</u>	<u>2,047</u>	<u>6,469</u>	<u>5,771</u>	<u>8,798</u>	<u>7,818</u>
<b>Ending net assets</b>	<u>2,424</u>	<u>2,329</u>	<u>7,715</u>	<u>6,469</u>	<u>10,139</u>	<u>8,798</u>

Table A-3 presents the cost of each of the City's largest functions as well as each function's net cost (total cost less generated by the activities and intergovernmental aid). The net cost reflects what was funded by state revenues as well as local tax dollars.

Table A-3  
Net Cost of Selected City Functions  
(In thousands)

	Total Cost of Services		Net Costs of Services	
	2011	2010	2011	2010
Government, sanitation & public safety	1,767	1,691	1,256	1,154
Water & sewer	1,172	1,183	178	243

**City of Mount Vernon, Texas**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

The City reported fund balance in its governmental funds of approximately \$964 thousand at September 30, 2011. This balance is composed of the following in thousands.

General	177
Debt service	505
Permanent fund	282
	<u>964</u>

The general fund balance was down \$46 thousand. The debt service fund balance was up \$47 thousand.

**General Fund Budgetary Highlights**

Actual expenditures were more than budgeted by approximately \$127 thousand. \$88 was expended for capital outlay (Fire Truck) that was not in the General Fund budget. Actual revenues were approximately \$82 thousand more than budgeted.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

Table A-4  
City's Capital Assets  
(In thousands)

	Governmental Activities		Business-Type Activities		Totals	
	2011	2010	2011	2010	2011	2010
Land and construction in progress	171	171	2,481	1,059	2,652	1,230
Buildings and improvements	325	281	-	-	325	281
Machinery and equipment	794	661	-	-	794	661
Streets	2,035	2,035	-	-	2,035	2,035
Water and sewer system	-	-	7,554	7,519	7,554	7,519
Totals at historical cost	<u>3,325</u>	<u>3,148</u>	<u>10,035</u>	<u>8,578</u>	<u>13,360</u>	<u>11,726</u>
Total accumulated depreciation	<u>(1,185)</u>	<u>(986)</u>	<u>(3,121)</u>	<u>(2,865)</u>	<u>(4,306)</u>	<u>(3,851)</u>
Net capital assets	<u>2,140</u>	<u>2,162</u>	<u>6,914</u>	<u>5,713</u>	<u>9,054</u>	<u>7,875</u>

**Long-Term Debt and Capital Leases**

Table A-5  
City's Long-Term Debt  
(In thousands)

	Governmental Activities		Business-Type Activities		Totals	
	2011	2010	2011	2010	2010	2010
Certificates of obligation	680	796	400	425	1,080	1,221
Total	<u>680</u>	<u>796</u>	<u>400</u>	<u>425</u>	<u>1,080</u>	<u>1,221</u>

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The fiscal year 2012 budget and tax rates were based upon the plans and projections of elected and appointed officials. During 2011-12 the City is targeting public safety and physical infrastructure. The City will continue to pursue available grant funds. The financial position of the City should remain adequate to provide services consistent with fiscal year 2011.

**CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide a general overview of the City of Mount Vernon's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed to the City Administration Office.

**BASIC FINANCIAL STATEMENTS**

**GOVERNMENT WIDE STATEMENTS**

**City of Mount Vernon, Texas**  
**STATEMENT OF NET ASSETS**  
As of September 30, 2011

	Primary Government			Component Unit Economic Development Corporation
	Governmental Activities	Business-Type Activities	Total	
<b>ASSETS</b>				
Current assets				
Cash and cash equivalents	51,468	1,181,150	1,232,618	714,042
Accounts receivable, net of allowances	56,942	293,647	350,589	-
Due from State	-	-	-	-
Total current assets	<u>108,410</u>	<u>1,474,797</u>	<u>1,583,207</u>	<u>714,042</u>
Restricted assets				
Cash and cash equivalents	892,611	13,795	906,406	-
Non-current assets				
Due from other funds	-	-	-	-
Capital assets				
Land and construction in progress	170,582	2,480,964	2,651,546	-
Buildings and improvements	325,290	-	325,290	-
Machinery and equipment	793,842	-	793,842	-
Streets	2,035,264	-	2,035,264	-
Water and sewer system	-	7,554,422	7,554,422	-
Accumulated depreciation	(1,184,561)	(3,121,201)	(4,305,762)	-
Total capital assets	<u>2,140,417</u>	<u>6,914,185</u>	<u>9,054,602</u>	<u>-</u>
Total assets	<u><u>3,141,438</u></u>	<u><u>8,402,777</u></u>	<u><u>11,544,215</u></u>	<u><u>714,042</u></u>
<b>LIABILITIES</b>				
Current liabilities				
Accounts payable and accrued expenditures	15,034	197,391	212,425	-
Deferred revenues	22,260	-	22,260	-
Total current liabilities	<u>37,294</u>	<u>197,391</u>	<u>234,685</u>	<u>-</u>
Liabilities payable from restricted assets	<u>85,000</u>	<u>25,000</u>	<u>110,000</u>	<u>-</u>
Non-current liabilities				
Meter deposits	-	90,553	90,553	-
Due to other funds	-	-	-	-
Bonds payable and certificates of obligations, non-current	595,000	375,000	970,000	-
Total non-current liabilities	<u>595,000</u>	<u>465,553</u>	<u>1,060,553</u>	<u>-</u>
Total liabilities	<u><u>717,294</u></u>	<u><u>687,944</u></u>	<u><u>1,405,238</u></u>	<u><u>-</u></u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	1,460,417	6,514,185	7,974,602	-
Restricted for debt service	505,014	13,795	518,809	-
Restricted for construction and development	379,783	-	379,783	-
Unrestricted net assets	78,930	1,186,853	1,265,783	714,042
Total net assets	<u><u>2,424,144</u></u>	<u><u>7,714,833</u></u>	<u><u>10,138,977</u></u>	<u><u>714,042</u></u>

The accompanying notes are an integral part of this statement

**City of Mount Vernon, Texas**  
**STATEMENT OF ACTIVITIES**  
For the year ended September 30, 2011

	Program Revenues			Net (Expense) Revenue	Net (Expense) Revenue and Changes in Net Assets			Component Unit Economic Development Corporation
	Expenses	Charges for Services	Capital Grants and Contributions		Governmental Activities	Business-Type Activities	Total	
<b>Primary Government</b>								
Governmental activities								
Sanitation	259,555	423,774	-	164,219	164,219	-	164,219	-
General government and public safety	1,275,534	88,287	-	(1,187,247)	(1,187,247)	-	(1,187,247)	-
Intergovernmental	275,838	-	388,712	112,874	112,874	-	112,874	-
Interest on debt	33,770	-	-	(33,770)	(33,770)	-	(33,770)	-
Unallocated depreciation	198,647	-	-	(198,647)	(198,647)	-	(198,647)	-
Total Governmental Activities	<u>2,043,344</u>	<u>512,061</u>	<u>388,712</u>	<u>(1,142,571)</u>	<u>(1,142,571)</u>	<u>-</u>	<u>(1,142,571)</u>	<u>-</u>
Business-type activities								
Water and sewer	1,171,904	993,987	1,406,968	1,229,051	-	1,229,051	1,229,051	-
Total business-type activities	<u>1,171,904</u>	<u>993,987</u>	<u>1,406,968</u>	<u>1,229,051</u>	<u>-</u>	<u>1,229,051</u>	<u>1,229,051</u>	<u>-</u>
Total primary government	<u>3,215,248</u>	<u>1,506,048</u>	<u>1,795,680</u>	<u>86,480</u>	<u>(1,142,571)</u>	<u>1,229,051</u>	<u>86,480</u>	<u>-</u>
Component unit								
MVEDC	108,023	-	-	-	-	-	-	(108,023)
Total component unit	<u>108,023</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(108,023)</u>
<b>Change in net assets</b>					<u>(1,142,571)</u>	<u>1,229,051</u>	<u>86,480</u>	<u>(108,023)</u>
Net (expense) revenue								
<b>General revenues and transfers</b>								
Taxes								
Property					651,400	-	651,400	-
Sales and other					562,628	-	562,628	188,074
Interest income					4,303	11,242	15,545	6,933
Other					23,596	1,773	25,369	-
Transfers in (out)					(3,941)	3,941	-	-
Total General Revenues					<u>1,237,986</u>	<u>16,956</u>	<u>1,254,942</u>	<u>195,007</u>
Changes in Net Assets					95,415	1,246,007	1,341,422	86,984
Net Assets -- Beginning					<u>2,328,729</u>	<u>6,468,826</u>	<u>8,797,555</u>	<u>627,058</u>
Net Assets -- Ending					<u>2,424,144</u>	<u>7,714,833</u>	<u>10,138,977</u>	<u>714,042</u>

The accompanying notes are an integral part of this statement

**GOVERNMENTAL FUND FINANCIAL STATEMENTS**

**City of Mount Vernon, Texas**  
**BALANCE SHEET**  
 Governmental Funds  
 as of September 30, 2011

	General	Special Revenue	Debt Service	Permanent Fund	Total Governmental Funds
<b>ASSETS</b>					
Cash and cash equivalents	51,468	-	-	-	51,468
Investments	-	-	-	-	-
Total cash and cash equivalents	<u>51,468</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>51,468</u>
Account receivable, net of allowances	48,118	-	8,824	-	56,942
Due from State	-	-	-	-	-
Due from other funds	-	-	-	-	-
Restricted assets:					
Cash and cash equivalents	<u>99,036</u>	<u>6,935</u>	<u>505,014</u>	<u>281,626</u>	<u>892,611</u>
Total assets	<u><u>198,622</u></u>	<u><u>6,935</u></u>	<u><u>513,838</u></u>	<u><u>281,626</u></u>	<u><u>1,001,021</u></u>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities</b>					
Accounts payable and accrued expenses	8,099	6,935	-	-	15,034
Deferred revenue	13,436	-	8,824	-	22,260
Due to other funds	-	-	-	-	-
Total liabilities	<u>21,535</u>	<u>6,935</u>	<u>8,824</u>	<u>-</u>	<u>37,294</u>
<b>Fund Balances</b>					
Reserved for:					
Debt service	-	-	505,014	-	505,014
Construction and development	98,157	-	-	281,626	379,783
Unreserved and undesignated					
Reported in the general fund	<u>78,930</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>78,930</u>
Total fund balances	<u>177,087</u>	<u>-</u>	<u>505,014</u>	<u>281,626</u>	<u>963,727</u>
Total liabilities and fund balances	<u><u>198,622</u></u>	<u><u>6,935</u></u>	<u><u>513,838</u></u>	<u><u>281,626</u></u>	<u><u>1,001,021</u></u>

The accompanying notes are an integral part of this statement

**City of Mount Vernon, Texas**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE**  
**STATEMENT OF NET ASSETS**  
for the year ended September 30, 2011

<b>Total Fund Balances - Governmental Funds</b>	963,727
Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$3,148,144 and the accumulated depreciation was \$985,914. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase (decrease) net assets.	1,366,230
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2011 capital outlays and debt principal payments is to increase (decrease) net assets.	292,834
The 2011 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets.	<u>(198,647)</u>
Net Assets, of Governmental Activities	<u><u>2,424,144</u></u>

The accompanying notes are an integral part of this statement

**City of Mount Vernon, Texas**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN**  
**FUND BALANCES--GOVERNMENTAL FUNDS**  
for the year ended September 30, 2011

	General	Special Revenue	Debt Service	Permanent Fund	Total Governmental Funds
<b>REVENUES</b>					
Charges for services	423,774	-	-	-	423,774
Property taxes	418,125	-	233,275	-	651,400
Sales and other taxes	562,628	-	-	-	562,628
Fines and fees	88,287	-	-	-	88,287
Intergovernmental	112,874	275,838	-	-	388,712
Interest income	1,807	-	2,496	-	4,303
Other	23,596	-	-	-	23,596
<b>Total revenues</b>	<b>1,631,091</b>	<b>275,838</b>	<b>235,771</b>	<b>-</b>	<b>2,142,700</b>
<b>EXPENDITURES</b>					
Current					
General government	355,882	-	-	-	355,882
City park	18,426	-	-	-	18,426
Sanitation	259,555	-	-	-	259,555
Animal control	60,451	-	-	-	60,451
Street	277,735	-	-	-	277,735
Fire	50,694	-	-	-	50,694
Police	385,973	-	-	-	385,973
Code enforcement	45,089	-	-	-	45,089
Court	69,717	-	-	-	69,717
Housing rehabilitation	-	275,838	-	-	275,838
Capital outlay					
General government	44,563	-	-	-	44,563
City park	33,070	-	-	-	33,070
Street	3,067	-	-	-	3,067
Fire	86,979	-	-	-	86,979
Police	20,722	-	-	-	20,722
Debt service					
Principal	-	-	116,000	-	116,000
Interest	-	-	33,770	-	33,770
<b>Total expenditures</b>	<b>1,711,923</b>	<b>275,838</b>	<b>149,770</b>	<b>-</b>	<b>2,137,531</b>
Excess (deficiency) of revenues over expenditures	(80,832)	-	86,001	-	5,169
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfer in (out), net	35,259	-	(39,200)	-	(3,941)
Excess (deficiency) of revenues and other financing sources over expenditures and other uses	(45,573)	-	46,801	-	1,228
Fund balance, beginning of year	222,660	-	458,213	281,626	962,499
Fund balance, end of year	177,087	-	505,014	281,626	963,727

The accompanying notes are an integral part of this statement

**City of Mount Vernon, Texas**  
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,  
 AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES  
 for the year ended September 30, 2011

<b>Total Net Change in Fund Balances - Governmental Funds</b>	1,228
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2011 capital outlays and debt principal payments is to increase (decrease) net assets.	292,834
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net assets.	<u>(198,647)</u>
Change in Net Assets of Governmental Activities	<u><u>95,415</u></u>

The accompanying notes are an integral part of this statement

**City of Mount Vernon, Texas**  
**BUDGETARY COMPARISON SCHEDULE**  
 General Fund  
 for the year ended September 30, 2011

	Budgeted Amounts		Actual Amounts GAAP Basis	Variance with Final Budget Positive or (Negative)
	Original	Final		
<b>REVENUES</b>				
Charges for services	405,900	405,900	423,774	17,874
Property taxes	364,260	364,260	418,125	53,865
Sales and other taxes	516,356	516,356	562,628	46,272
Fines and fees	73,400	73,400	88,287	14,887
Intergovernmental	183,000	183,000	112,874	(70,126)
Interest income	1,800	1,800	1,807	7
Other	4,800	4,800	23,596	18,796
Total revenues	<u>1,549,516</u>	<u>1,549,516</u>	<u>1,631,091</u>	<u>81,575</u>
<b>EXPENDITURES</b>				
<b>Current</b>				
General government	334,016	334,016	355,882	(21,866)
City park	26,920	26,920	18,426	8,494
Sanitation	287,825	287,825	259,555	28,270
Animal control	62,324	62,324	60,451	1,873
Street	266,234	266,234	277,735	(11,501)
Fire	57,475	57,475	50,694	6,781
Police	392,460	392,460	385,973	6,487
Code enforcement	49,149	49,149	45,089	4,060
Court	58,888	58,888	69,717	(10,829)
<b>Capital outlay</b>				
General government	-	-	44,563	(44,563)
City park	50,000	50,000	33,070	16,930
Street	-	-	3,067	(3,067)
Fire	-	-	86,979	(86,979)
Police	-	-	20,722	(20,722)
<b>Debt service</b>				
Principal	-	-	-	-
Interest	-	-	-	-
Total expenditures	<u>1,585,291</u>	<u>1,585,291</u>	<u>1,711,923</u>	<u>(126,632)</u>
Excess (deficiency) of revenues over expenditures	<u>(35,775)</u>	<u>(35,775)</u>	<u>(80,832)</u>	<u>(45,057)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in (out), net	<u>50,000</u>	<u>50,000</u>	<u>35,259</u>	<u>(14,741)</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other uses	14,225	14,225	(45,573)	(59,798)
<b>FUND BALANCE (DEFICIT)</b>				
Beginning of year	<u>222,660</u>	<u>222,660</u>	<u>222,660</u>	<u>-</u>
End of year	<u>236,885</u>	<u>236,885</u>	<u>177,087</u>	<u>(59,798)</u>

The accompanying notes are an integral part of this statement

**PROPRIETARY FUND FINANCIAL STATEMENTS**

**City of Mount Vernon, Texas**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUND**  
as of September 30, 2011

	<u>Enterprise Fund</u>	<u>Total Proprietary Funds</u>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	1,181,150	1,181,150
Accounts receivable, net of allowances	<u>293,647</u>	<u>293,647</u>
Total current assets	<u>1,474,797</u>	<u>1,474,797</u>
<b>RESTRICTED ASSETS</b>		
Cash and cash equivalents	<u>13,795</u>	<u>13,795</u>
<b>NON-CURRENT ASSETS</b>		
Due from other funds	<u>-</u>	<u>-</u>
<b>CAPITAL ASSETS</b>		
Land and construction in progress	2,480,964	2,480,964
Water and sewer system, net of accumulated depreciation	<u>4,433,221</u>	<u>4,433,221</u>
Total capital assets	<u>6,914,185</u>	<u>6,914,185</u>
Total assets	<u><u>8,402,777</u></u>	<u><u>8,402,777</u></u>
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable and accrued expenses	<u>197,391</u>	<u>197,391</u>
Total current liabilities	<u>197,391</u>	<u>197,391</u>
Liabilities payable from restricted assets		
Certificates of obligation, current	<u>25,000</u>	<u>25,000</u>
Total liabilities payable from restricted assets	<u>25,000</u>	<u>25,000</u>
Non-current liabilities		
Meter deposits	90,553	90,553
Certificates of obligation, non--current	<u>375,000</u>	<u>375,000</u>
Total non-current liabilities	<u>465,553</u>	<u>465,553</u>
Total liabilities	<u><u>687,944</u></u>	<u><u>687,944</u></u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	6,514,185	6,514,185
Restricted for debt service	13,795	13,795
Restricted for construction	-	-
Unrestricted	<u>1,186,853</u>	<u>1,186,853</u>
Total net assets	<u><u>7,714,833</u></u>	<u><u>7,714,833</u></u>

The accompanying notes are an integral part of this statement

**City of Mount Vernon, Texas**  
**STATEMENT OF REVENUES, EXPENSES AND**  
**CHANGES IN FUND NET ASSETS**  
**PROPRIETARY FUND**  
for the year ended September 30, 2011

	Enterprise Fund	Total Proprietary Funds
<b>OPERATING REVENUES</b>		
Charges for sales and services	993,987	993,987
Other	1,773	1,773
Total operating revenues	<u>995,760</u>	<u>995,760</u>
<b>OPERATING EXPENSES</b>		
Water	520,897	520,897
Sewer	378,457	378,457
Depreciation	256,001	256,001
Total operating expenses	<u>1,155,355</u>	<u>1,155,355</u>
Net operating income (loss)	<u>(159,595)</u>	<u>(159,595)</u>
<b>NON-OPERATING REVENUE (EXPENSES)</b>		
Interest income	11,242	11,242
Interest expense	(16,549)	(16,549)
Total non-operating revenue (expenses)	<u>(5,307)</u>	<u>(5,307)</u>
Income (loss) before transfers and contributions	<u>(164,902)</u>	<u>(164,902)</u>
Operating transfers in (out), net	3,941	3,941
Capital contributions, grant	<u>1,406,968</u>	<u>1,406,968</u>
Change in net assets	1,246,007	1,246,007
Net assets, beginning of year	<u>6,468,826</u>	<u>6,468,826</u>
Net assets, end of year	<u><u>7,714,833</u></u>	<u><u>7,714,833</u></u>

The accompanying notes are an integral part of this statement

**City of Mount Vernon, Texas**  
**STATEMENT OF CASH FLOWS**  
**INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS PROPRIETARY FUND**  
for the year ended September 30, 2011

	Enterprise Fund	Total Proprietary Funds
	<u>          </u>	<u>          </u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from customers	1,079,783	1,079,783
Cash payments to suppliers for goods and services	(593,859)	(593,859)
Cash payments to employees for services and benefits	(394,050)	(394,050)
Net cash provided by operating activities	<u>91,874</u>	<u>91,874</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Transfers (to) from other funds, net	3,941	3,941
Intergovernmental	1,406,968	1,406,968
Net cash provided by (used in) noncapital financing activities	<u>1,410,909</u>	<u>1,410,909</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition or construction of capital assets	(1,456,968)	(1,456,968)
Payment on certificates of obligations	(25,000)	(25,000)
Interest expense	(16,549)	(16,549)
Net cash (used in) capital and related financing activities	<u>(1,498,517)</u>	<u>(1,498,517)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest income	11,242	11,242
Net cash provided by investing activities	<u>11,242</u>	<u>11,242</u>
Net increase (decrease) in cash and cash equivalents	15,508	15,508
Cash and cash equivalents, beginning of year	<u>1,179,437</u>	<u>1,179,437</u>
Cash and cash equivalents, end of year	<u>1,194,945</u>	<u>1,194,945</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating income (loss)	(159,595)	(159,595)
Adjustment to reconcile operating income to net cash provided by operating activities:		
Depreciation	256,001	256,001
Increase in accounts receivable	(113,889)	(113,889)
Increase in accounts payable and accrued expenses	101,520	101,520
Increase in other liabilities	7,837	7,837
Net cash provided by operating activities	<u>91,874</u>	<u>91,874</u>

The accompanying notes are an integral part of this statement

**COMPONENT UNIT**

**City of Mount Vernon, Texas**  
**BALANCE SHEET**  
**COMPONENT UNIT**  
 September 30, 2011

	<u>Economic Development Corporation</u>
<b>ASSETS</b>	
Cash and cash equivalents	714,042
<b>TOTAL ASSETS</b>	<u>714,042</u>
<b>LIABILITIES AND FUND BALANCES</b>	
<b>Liabilities</b>	
Accounts payable and accrued expenses	-
<b>TOTAL LIABILITIES</b>	<u>-</u>
<b>Fund Balances</b>	
Unreserved and undesignated	714,042
<b>TOTAL FUND BALANCES</b>	<u>714,042</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>714,042</u>

The accompanying notes are an integral part of this statement.

**City of Mount Vernon, Texas**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE**  
**COMPONENT UNIT**  
for the year ended September 30, 2011

	<u>Economic Development Corporation</u>
<b>REVENUES</b>	
Sales tax	188,074
Interest	6,933
Total revenues	<u>195,007</u>
 <b>EXPENDITURES</b>	
Current	
Economic development	33,815
General and administrative	74,208
Capital outlay	-
Total expenditures	<u>108,023</u>
 Excess of revenues over expenditures	 86,984
 Fund balance at beginning of year	 <u>627,058</u>
 Fund balance at end of year	 <u><u>714,042</u></u>

The accompanying notes are an integral part of this statement.

**City of Mount Vernon, Texas**  
**NOTES TO THE FINANCIAL STATEMENTS**  
At September 30, 2011

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

City of Mount Vernon, Texas is a City government operating under the applicable laws and regulations of the State of Texas. It is governed by City Council elected by registered voters of the City. The City prepares its basic financial statements in conformity with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board and other authoritative sources identified in *Statement on Auditing Standards No. 69* of the American Institute of Certified Public Accountants.

**A. REPORTING ENTITY**

The City Council is elected by the public and it has the authority to make decisions and significantly influence operations. It has the primary accountability for fiscal matters. Therefore, the City is a financial reporting entity as defined by the Governmental Accounting Standards Board ("GASB") in its Statement No. 14, "The Financial Reporting Entity." There are no component units included within the reporting entity.

**B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

The Statement of Net Assets and the Statement of Activities are government-wide financial statements. They report information on all of the City of Mount Vernon with most of the interfund activities removed. *Governmental activities* include programs supported primarily by taxes, charges for services, grants and other intergovernmental revenues. Business type activities include operations that rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates how other people or entities that participate in programs the City operates have shared in the payment of the direct costs. The "charges for services" column includes payments made by parties that purchase, use, or directly benefit from goods or services provided by a given function or segment of the City. Examples include fees charges for water, sewer, and garbage service. The "grants and contributions" column includes amounts paid by organizations outside the City to help meet the operational or capital requirements of a given function. If a revenue is not program revenue, it is a general revenue used to support all of the City's functions. Taxes are always general revenues.

Interfund activities between governmental funds and between governmental funds and proprietary funds appear as due to/due froms on the Governmental Fund Balance Sheet and Proprietary Fund Statement of Net Assets and as other resources and other uses on the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balance and on the Proprietary Fund Statement of Revenues, Expenses and Changes in Fund Net Assets. All interfund transactions between governmental funds are eliminated on the government-wide statements. Interfund activities between governmental funds and enterprise funds remain on the government-wide statements and appear on the government-wide Statement of Net Assets as internal balances and on the Statement of Activities as interfund transfers.

The fund financial statements provide reports on the financial condition and results of operations for two fund categories - governmental and proprietary.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues result from providing goods and services in connection with a proprietary fund's principal ongoing operations; they usually come from exchange or exchange-like transactions. All other revenues are nonoperating. Operating expenses can be tied specifically to the production of the services, such as materials and labor and direct overhead. Other expenses are nonoperating.

**C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION**

The government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting, as do the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements use the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities and fund balances are included on the balance sheet. Operating statements of these funds present net increases and decreases in current assets (i.e., revenues and other financing sources and expenditures and other financing uses).

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available, and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest and principal on long-term debt, which is recognized when due. The expenditures related to certain compensated absences and claims and judgments are recognized when the obligations are expected to be liquidated with expendable available financial resources. The City considers all revenues available if they are collectible within 60 days after year end.

Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the "susceptible to accrual" concept, that is, when they are both measurable and available. The City considers them "available" if they will be collected within 60 days of the end of the fiscal year. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

**City of Mount Vernon, Texas**  
**NOTES TO THE FINANCIAL STATEMENTS**  
 At September 30, 2011

**C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION continued**

Grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant. Accordingly, when such funds are received, they are recorded as deferred revenues until related and authorized expenditures have been made. If balances have not been expended by the end of the project period, grantors some times require the City to refund all or part of the unused amount.

The Proprietary Fund is accounted for on a flow of economic resources measurement focus and utilizes the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. The City applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless these pronouncements conflict or contradict GASB pronouncements. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the fund Statement of Net Assets. The fund equity is segregated into invested in capital assets net of related debt, restricted net assets, and unrestricted net assets.

**D. FUND ACCOUNTING**

The City reports the following major governmental funds:

Governmental Funds:

**General Fund** – The general fund is the City's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.

**Special Revenue** – The City accounts for various grant activities through this fund.

**Debt Service Fund** - The City accounts for resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds in a debt service fund.

**Permanent Fund** - The City accounts for a memorial cash bequest to be used for maintenance of the Mount Vernon City Cemetery through this perpetual care fund.

Proprietary Funds:

**Enterprise Funds** -- The City's activities for which outside users are charged a fee roughly equal to the cost of providing the goods or services of those activities are accounted for in an enterprise fund. The City's major Enterprise Fund is the water and sewer fund.

**E. OTHER ACCOUNTING POLICIES**

1. For purposes of the statement of cash flows for proprietary funds, the City considers highly liquid investments to be cash equivalents. Lonestar Investment Pool investments are considered as cash and cash equivalents.
2. Investments are recorded at carrying value which approximates fair value. (see E-1 above)
3. In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets.
4. Capital assets, which include land, buildings, machinery and equipment and roads and bridges are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Buildings, machinery and equipment of the City and the component units are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	40-50
Equipment	4-8
Streets and improvements	20-30
Water and sewer system	40-50

**City of Mount Vernon, Texas**  
**NOTES TO THE FINANCIAL STATEMENTS**  
 At September 30, 2011

**E. OTHER ACCOUNTING POLICIES continued**

5. Certain assets are restricted for debt service and for construction and development.
6. In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.
7. When the City incurs an expense for which it may use either restricted or unrestricted assets, it uses the restricted assets first whenever they will have to be returned if they are not used.
8. External contributions of capital relating to the acquisition of plant for the water and sewer fund (a proprietary fund) are being amortized over the life of the assets acquired with such contributions of capital.
9. Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in both government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the GASB. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

**F. ECONOMIC DEVELOPMENT CORPORATION**

The Mount Vernon Economic Development Corporation (EDC) is reported as a discretely presented component unit of the City. The EDC was created and operates for the purpose of economic development and is funded by sales tax revenues of the City.

The EDC reports its activity as a governmental fund type.

**II. RECONCILIATION OF GOVERNMENT –WIDE FINANCIAL STATEMENTS**

**A. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND BALANCE SHEET AND THE GOVERNMENT-WIDE STATEMENTS OF NET ASSETS**

Exhibit C-2 provides the reconciliation between the fund balance for total governmental funds on the governmental fund balance sheet and the net assets for governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that capital assets are not financial resources and are therefore not reported in governmental funds. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period and are not reported as liabilities in the funds. The details of capital assets and long-term debt at the beginning of the year were as follows:

<u>Capital Assets at the Beginning of the year</u>	<u>Historic Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Value at the Beginning of the Year</u>	<u>Change in Net Assets</u>
Land and construction in progress	170,582	-	170,582	
Buildings and improvements	281,290	-	281,290	
Streets and improvements	2,035,264	-	2,035,264	
Machinery and equipment	661,008	-	661,008	
Accumulated depreciation	-	<u>(985,914)</u>	<u>(985,914)</u>	
Change in Net Assets	<u>3,148,144</u>	<u>(985,914)</u>	<u>2,162,230</u>	<u>2,162,230</u>
<u>Long-term Liabilities at the Beginning of the year</u>			<u>Payable at the Beginning of the Year</u>	
Certificates of obligation			<u>796,000</u>	
Change in Net Assets				<u>(796,000)</u>
Net Adjustment to Net Assets				<u><u>1,366,230</u></u>

**City of Mount Vernon, Texas**  
**NOTES TO THE FINANCIAL STATEMENTS**  
 At September 30, 2011

**B. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES AND THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES**

Exhibit C-4 provides a reconciliation between the net changes in fund balance as shown on the governmental fund statement of revenues, expenditures, and changes in fund balances and the changes in net assets of governmental activities as reported on the government-wide statement of activities. One element of that reconciliation explains that current year capital outlays and debt principal payments are expenditures in the fund financial statements, but should be shown as increases in capital assets and decreases in long-term debt in the government-wide statements. This adjustment affects both the net asset balance and the change in net assets. The details of this adjustment are as follows:

	<u>Amount</u>	<u>Adjustments to Changes in Net Assets</u>	<u>Adjustments to Net Assets</u>
<u>Current year Capital Outlay</u>			
Buildings and improvements	44,000	44,000	44,000
Machinery and equipment	132,834	132,834	132,834
Streets and improvements	-	-	-
Total Capital Outlay	<u>176,834</u>	<u>176,834</u>	<u>176,834</u>
<u>Debt Principal Payments</u>			
Certificate principal	<u>116,000</u>	<u>116,000</u>	<u>116,000</u>
Total Principal Payments	<u>116,000</u>	<u>116,000</u>	<u>116,000</u>
Total Adjustment to Net Assets		<u><u>292,834</u></u>	<u><u>292,834</u></u>

**III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**A. BUDGETARY DATA**

Formal budgetary integration is employed as a management control device during the year for the general fund. This budget is adopted on a basis consistent with generally accepted accounting principles. Once approved, the City Council may amend the legally adopted budget when unexpected modifications are required in estimated revenues and appropriations. No budget was adopted for the debt service fund.

The budgets for the operating funds and proprietary fund operations are prepared on the cash and expenditures basis. Revenues are budgeted in the year receipt is expected; and expenditures are budgeted in the year the applicable purchase orders are expected to be issued. The budget and actual financial statements are reported on these bases. Unencumbered appropriations for annually budgeted funds lapse at fiscal year-end.

The City does not record encumbrances as part of its accounting records.

**IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS**

**A. DEPOSITS AND INVESTMENTS**

**Legal and Contractual Provisions Governing Deposits and Investments**

The **Public Funds Investment Act** (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the City to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. Statutes authorize the City to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) Mutual Funds, (8) Investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Act also requires the City to have independent auditors perform test procedures related to investment practices as provided by the Act. The City is in substantial compliance with the requirements of the Act and with local policies.

Additional Contractual provisions governing deposits and investments for the City are as follows:

**City of Mount Vernon, Texas**  
**NOTES TO THE FINANCIAL STATEMENTS**  
 At September 30, 2011

**A. DEPOSITS AND INVESTMENTS continued**

**Policies Governing Deposits and Investments**

In compliance with the Public Funds Investment Act, the City has adopted a deposit and investment policy. That policy does address the following risks:

1. Custodial Credit Risk – Deposits: In the case of deposits, this is the risk that in the event of a bank failure, the government’s deposits may not be returned to it. The City’s policy regarding types of deposits allowed and collateral requirements is that the funds of the City must be deposited and invested under the terms of a contract, contents of which are set out in the Depository Contract Law. The depository bank places approved pledged securities for safekeeping in an amount sufficient to protect the City’s funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank’s dollar amount of Federal Deposit Insurance Corporation (“FDIC”) insurance.

Deposits of the City are insured or collateralized with securities held by the pledging financial institution’s trust department or agent in the name of the City.

At September 30, 2011, the carrying amount of the City's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was approximately \$2,850,000. The City's cash deposits at September 30, 2011 and during the year ended September 30, 2011 were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name.

In addition, the following is disclosed regarding coverage of combined balances on the date of highest deposit:

- a. Depository: First National Bank of Mount Vernon
  - b. The market value of securities pledged as of the date of the highest combined balance on deposit was approximately \$2,790,000.
  - c. The combined balances of cash, savings, and time deposit accounts amounted to approximately \$2,900,000.
  - d. Total amount of FDIC coverage at the time of the highest combined balance was \$250,000.
2. Custodial Credit Risk – Investments: For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Positions in external investment pools are not subject to custodial credit risk. The City has no investments exposed to custodial credit risk at the end of the period.
  3. Interest- rate Risk – Interest-rate risk occurs when potential purchasers of debt securities do not agree to pay face value for these securities if interest rates rise. The City does not purchase investments where the face value is not guaranteed.
  4. Concentration Risk – Concentration risk is defined as positions of 5 percent or more in the securities of a single issuer. Investments in external investment pools are not subject to concentration risk. The City is not exposed to any amounts of concentration risk.
  5. Other Credit Risk Exposure – The City has investments in external investment pools. The rating of the pool is disclosed below.

The City’s investments at September 30, 2011 are shown below:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Average Credit Quality/ Ratings</u>	<u>Weighted Avg. Days to Maturity</u>
Lonestar Investment Pool	409,000	1	N/A

**B. PROPERTY TAXES**

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the City in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available (1) when they become due or past due and receivable within the current period and (2) when they are expected to be collected during a 60-day period after the close of the school fiscal year.

The 2010 assessed tax (net) was approximately \$627,000 levied at the rate of \$0.621476 per hundred dollar valuation.

**City of Mount Vernon, Texas**  
**NOTES TO THE FINANCIAL STATEMENTS**  
 At September 30, 2011

**C. DELINQUENT TAXES RECEIVABLE**

Delinquent taxes are deposited into the General and Debt Service Funds. Allowances for uncollectible tax receivables within the General Fund are based on historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the City is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

**D. DISAGGREGATION OF RECEIVABLES AND PAYABLES**

Receivables at September 30, 2011, were as follows:

	<u>Property Taxes</u>	<u>Charges for Services</u>	<u>Other</u>	<u>Total Receivables</u>
<b>Governmental Activities:</b>				
General Fund	29,858	34,682	-	64,540
Debt Service Fund	14,706	-	-	14,706
Total	<u>44,564</u>	<u>34,682</u>	<u>-</u>	<u>79,246</u>
Amounts not scheduled for collection during the subsequent year	<u>22,304</u>	<u>-</u>	<u>-</u>	<u>22,304</u>
<b>Business Type Activities:</b>				
Major Enterprise Fund	<u>-</u>	<u>103,572</u>	<u>190,075</u>	<u>293,647</u>
Amounts not scheduled for collection during the subsequent year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

Payables at September 30, 2011, were as follows:

	<u>Accounts</u>	<u>Salaries and Benefits</u>	<u>Other</u>	<u>Total Payables</u>
<b>Governmental Activities:</b>				
General Fund	<u>6,935</u>	<u>8,099</u>	<u>-</u>	<u>15,034</u>
Amounts not scheduled for payment during the subsequent year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Business Type Activities:</b>				
Major Enterprise Fund	<u>-</u>	<u>7,316</u>	<u>190,075</u>	<u>197,391</u>
Amounts not scheduled for payment during the subsequent year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

**City of Mount Vernon, Texas**  
**NOTES TO THE FINANCIAL STATEMENTS**  
At September 30, 2011

**E. CAPITAL ASSET ACTIVITY**

Capital asset activity for the City for the year ended September 30, 2011, was as follows:

	Primary Government				Ending Balance
	Beginning Balance	Additions	Retirements	Adjustments	
<b>Governmental Activities:</b>					
Land and construction in progress	170,582	-	-	-	170,582
Buildings and improvements	281,290	44,000	-	-	325,290
Machinery and equipment	661,008	132,834	-	-	793,842
Streets	2,035,264	-	-	-	2,035,264
Totals at historic cost	<u>3,148,144</u>	<u>176,834</u>	<u>-</u>	<u>-</u>	<u>3,324,978</u>
Less accumulated depreciation for:					
Buildings, streets, improvements, machinery and equipment	(985,914)	(198,647)	-	-	(1,184,561)
Total accumulated depreciation	<u>(985,914)</u>	<u>(198,647)</u>	<u>-</u>	<u>-</u>	<u>(1,184,561)</u>
Governmental activities capital, assets net	<u>2,162,230</u>	<u>(21,813)</u>	<u>-</u>	<u>-</u>	<u>2,140,417</u>
<b>Business-Type Activities:</b>					
Land and construction in progress	1,058,996	1,421,968	-	-	2,480,964
Water and sewer system	7,519,422	35,000	-	-	7,554,422
Totals at historic cost	<u>8,578,418</u>	<u>1,456,968</u>	<u>-</u>	<u>-</u>	<u>10,035,386</u>
Less accumulated depreciation for:					
Water and sewer system	(2,865,200)	(256,001)	-	-	(3,121,201)
Total accumulated depreciation	<u>(2,865,200)</u>	<u>(256,001)</u>	<u>-</u>	<u>-</u>	<u>(3,121,201)</u>
Business-Type Activities Capital assets, net	<u>5,713,218</u>	<u>1,200,967</u>	<u>-</u>	<u>-</u>	<u>6,914,185</u>
Primary Government Capital assets, net	<u>7,875,448</u>	<u>1,179,154</u>	<u>-</u>	<u>-</u>	<u>9,054,602</u>

Depreciation expense was charged to governmental functions as follows:

	Governmental Activities	Business-Type Activities
Unallocated	198,647	-
Water and sewer system	-	256,001
	<u>198,647</u>	<u>256,001</u>

**City of Mount Vernon, Texas**  
**NOTES TO THE FINANCIAL STATEMENTS**  
At September 30, 2011

**F. CHANGES IN LONG-TERM DEBT**

The following is a summary of long-term debt transactions for the year ended September 30, 2011.

	Balance at <u>10/01/10</u>	Issued	Retired	Balance at <u>9/30/11</u>	Due Within <u>One Year</u>
Primary Government					
Governmental Activities:					
Combination Tax & Revenue Certificates of Obligation, Series 1998, 2.9% - 4.25%	765,000	-	(85,000)	680,000	(85,000)
Combination Tax & Revenue Certificates of Obligation, Series 2001, 4.25% varying	<u>31,000</u>	<u>-</u>	<u>(31,000)</u>	<u>-</u>	<u>-</u>
Total	<u>796,000</u>	<u>-</u>	<u>(116,000)</u>	<u>680,000</u>	<u>(85,000)</u>
Business-Type Activities:					
Certificates of Obligation, Series 2007, 3.85%	<u>425,000</u>	<u>-</u>	<u>(25,000)</u>	<u>400,000</u>	<u>(25,000)</u>
Total Other Liabilities	<u>425,000</u>	<u>-</u>	<u>(25,000)</u>	<u>400,000</u>	<u>(25,000)</u>
Total primary governmental debt	<u>1,221,000</u>	<u>-</u>	<u>(141,000)</u>	<u>1,080,000</u>	<u>(110,000)</u>

The annual requirements to amortize bond debt payable as of September 30, 2011, follow:

Governmental Activities				Business-Type Activities			
Years Ending 9/30	Principal	Interest	Total	Years Ending 9/30	Principal	Interest	Total
2012	85,000	28,080	113,080	2012	25,000	14,919	39,919
2013	90,000	24,723	114,723	2013	25,000	13,956	38,956
2014	95,000	21,123	116,123	2014	25,000	12,994	37,994
2015	95,000	17,228	112,228	2015	25,000	12,031	37,031
2016	100,000	13,285	113,285	2016	25,000	11,069	36,069
2017-2019	<u>215,000</u>	<u>13,760</u>	<u>228,760</u>	2017-2021	125,000	40,906	165,906
				2022-2027	150,000	17,325	167,325
Totals	<u>680,000</u>	<u>118,199</u>	<u>798,199</u>	2028-2032	<u>-</u>	<u>-</u>	<u>-</u>
				Totals	<u>400,000</u>	<u>123,200</u>	<u>523,200</u>

The City is in substantial compliance with debt service agreements.

**G. COMMITMENTS UNDER LEASES**

The City is not presently committed under any equipment lease which qualifies as a capital lease.

**H. HEALTH CARE COVERAGE**

During the year ended September 30, 2011, employees of the City were covered by a health insurance plan with the Texas Municipal League (TML). The contract between the City and TML is renewable October 1, 2011, and terms of coverage and premium costs are included in the contractual provisions. For the year ended September 30, 2011, the City paid premium costs of approximately \$400 per month for each eligible employee.

**City of Mount Vernon, Texas**  
**NOTES TO THE FINANCIAL STATEMENTS**  
At September 30, 2011

**I. RETIREMENT PLAN**

Plan Description

The City provides pension benefits for all of its full-time employees through a nontraditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), one of over 800 administered by TMRS, an agent multiple-employer public employee retirement system.

Benefits

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount at least equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100%, 150%, or 200%) of the employee's accumulated contributions. In addition, the City can grant as often as annually another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and City matching percent had always been in existence and if the employee's salary had always been the average of his salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity.

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes. Plan provisions for the City were as follows as of 3/1/11:\*

**Deposit Rate: 7%**

**Matching Ratio (City to Employee): 2 to 1**

**A member is vested after 5 years**

Members can retire at certain ages, based on the years of service with the City. The Service Retirement Eligibilities for the city, expressed as years of service/age are:

**5 years/age 60, 25 years/any age**

*\*To ensure the most accurate future rates are determined for the City, TMRS provided plan provisions as of 3/1/11 to the actuary in calculating the 12/31/10 valuation.*

Contributions

Under the state law governing TMRS, the actuary annually determines the City contribution rate. This rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to the City's matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his retirement becomes effective. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan's 25-year amortization period. The unit credit actuarial cost method is used for determining the City contribution rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect. (i.e. December 31, 2010 valuation is effective for rates beginning in January 2011).

**City of Mount Vernon, Texas**  
**NOTES TO THE FINANCIAL STATEMENTS**  
 At September 30, 2011

**I. RETIREMENT PLAN continued**

**Schedule of Actuarial Liabilities and Funding Progress**

Actuarial Valuation Date	12/31/10
Actuarial Value of Assets	1,991,407
Actuarial Accrued Liability	2,150,340
Percentage Funded	92.6%
Unfunded (Overfunded) Actuarial Accrued Liability (UAAL)	158,933
Annual Covered Payroll	836,033
UAAL as a Percentage of Covered Payroll	20.1%
Net Pension Obligation (NPO) at the Beginning of Period	-
Annual Pension Cost:	
Annual required contribution (ARC)	78,085
Contributions Made	<u>(78,085)</u>
NPO at the end of the period	<u>-</u>

**Actuarial Assumptions**

Actuarial Cost Method	Unit Credit
Amortization Method	Level Percent of Payroll
Remaining Amortization Period	25 Years-Open Period
Asset Valuation Method	Amortized Cost
	(to accurately reflect the requirements of GASB statement, No. 25, paragraph 36e and 138)
Investment Rate of Return	7%
Projected Salary Increases	None
Includes Inflation At	3.5%
Cost-of-Living Adjustments	None

The City of Mount Vernon is one of over 800 municipalities having the benefit plan administered by TMRS. Each of the over 800 municipalities have an annual, individual actuarial valuation performed. All assumptions for the 12/31/10 valuations are contained in the 2010 TMRS Comprehensive Annual Financial Report, a copy of which may be obtained by writing to P.O. Box 149153, Austin, Texas 78714-9153.

**J. CASH FLOW INFORMATION**

For the year ended September 30, 2011, the City paid interest and fiscal charges of \$16,549 from the enterprise fund.

**K. INTERFUND TRANSFERS**

During the year a net transfer of \$3,941 was made by the general fund to the utility fund.

**L. FEDERAL GRANTS**

In the normal course of operations, the City receives grant funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance precedent to the granting of funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

**M. RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal 2011, the City purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year, and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

**N. COMMITMENTS AND CONTINGENCIES**

The City had no significant commitments or contingencies outstanding at September 30, 2011.

**O. LITIGATION**

As of September 30, 2011 the City was involved in pending litigation. The City, after discussion with legal counsel, does not believe such litigation will impact the financial statements.

**P. RESTRICTED/RESERVED FUND EQUITY**

Reservations of fund equity show amounts that are restricted for specific purposes. The purpose for each is indicated by the account title on the face of the balance sheet and statement of net assets.

**L. SUBSEQUENT EVENTS**

The City has evaluated subsequent events through December 2, 2011, the date at which the financial statements were available to be issued.

**FEDERAL AWARDS SECTION**



**ARNOLD, WALKER, ARNOLD, & Co., P.C.**  
*Certified Public Accountants and Consultants*

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Lanny G. Walker, C.P.A., P.F.S.  
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MEMBER  
  
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**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***

**INDEPENDENT AUDITOR'S REPORT**

**Mayor and City Council  
City of Mount Vernon  
Mount Vernon, Texas**

We have audited the financial statements of the governmental activities, the business-type activities and each major fund of the City of Mount Vernon as of and for the year ended September 30, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 2, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Mount Vernon's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City'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*.

This report is intended solely for the information and use of management, the Board, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully Submitted,

*Arnold, Walker, Arnold & Co., P.C.*

Arnold, Walker, Arnold & Co., P.C.

December 2, 2011



**ARNOLD, WALKER, ARNOLD, & Co., P.C.**  
*Certified Public Accountants and Consultants*

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**REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND  
MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

**INDEPENDENT AUDITOR'S REPORT**

**Mayor and City Council  
City of Mount Vernon  
Mount Vernon, Texas**

Compliance

We have audited the compliance of the City of Mount Vernon, Texas with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2011. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2011.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Arnold, Walker, Arnold & Co., P.C.*

Arnold, Walker, Arnold & Co., P.C.

December 2, 2011

**City of Mount Vernon**  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the year ended September 30, 2011

Summary of the Auditor's Results:

- a. The type of report issued on the financial statements of the City of Mount Vernon, Texas was unqualified.
- b. Where applicable, a statement that control deficiencies in internal control were disclosed by the audit of the financial statements and whether they were material weaknesses. None
- c. A statement as to whether the audit disclosed any noncompliance which is material to the financial statements of the auditee. None
- d. Where applicable, a statement that control deficiencies in internal control over major programs were disclosed by the audit and whether any such conditions were material weaknesses. None
- e. The type of report the auditor issued on compliance for major programs. Unqualified
- f. A statement as to whether the audit disclosed any audit findings which the auditor is required to report under Section .510(a). None
- g. An identification of major programs: Environmental Protection Agency CFDA #66.468 Drinking Water.
- h. The dollar threshold used to distinguish between Type A and Type B programs. \$300,000
- I. A statement as to whether the auditee qualified as a low risk auditee. Yes

Findings Relating to the Financial Statements which are Required to be Reported in Accordance with  
*Generally Accepted Government Auditing Standards:*

NONE

Findings and Questioned Costs for Federal Awards Including Audit Findings as Described Above:

NONE

**City of Mount Vernon**  
SCHEDULE OF STATUS OF PRIOR FINDINGS  
For the year ended September 30, 2011

N/A

**City of Mount Vernon**  
CORRECTIVE ACTION PLAN  
For the year ended September 30, 2011

N/A

**City of Mount Vernon**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the year ended September 30, 2011

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	FEDERAL CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<b>ENVIRONMENTAL PROTECTION AGENCY</b>			
<u>Passed Through Texas Water Development Board</u>			
Drinking Water (DWSRF)	66.468	62235	<u>1,085,649</u>
<b>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>			
<u>Passed Through Texas Department of Housing and Community Affairs</u>			
Home Program	14.239	1001096	275,838
<u>Passed Through Texas Department of Rural Affairs</u>			
Water Tower Project	14.228	7710479	<u>131,244</u>
<u>Total Passed Through U.S. Department of Housing and Urban Development</u>			<u>407,082</u>
<b>U.S. DEPARTMENT OF ENERGY</b>			
<u>Passed Through Texas Comptroller of Public Accounts</u>			
SECO Stimulus ARRA - - Energy Efficiency and Conservation Block Grant	81.128	DE-EE0000893	<u>23,030</u>
Total Expenditures of Federal Awards			<u><u>1,515,761</u></u>

**City of Mount Vernon**  
**FEDERAL PROGRAM PROJECT SCHEDULE**  
**PROJECTS THAT ENDED OR WERE IN OPERATION DURING**  
**the year ended September 30, 2011**

Environmental Protection Agency  
 Federal Grantor: American Recovery and Reinvestment Act  
 Pass through Grantor: Texas Water Development Board  
 CDBG # 66.468 Project # 62235  
 Contract Period: 1/24/10 – 1/23/12

	Federal			
	Budget	Prior Year	Current Year	Total
REVENUE				
Federal	2,255,000	978,010	1,085,649	2,063,659
EXPENSES				
Water line replacement	2,255,000	978,010	1,085,649	2,063,659
TOTAL EXPENSES	2,255,000	978,010	1,085,649	2,063,659
EXCESS REVENUE OVER EXPENSES	-	-	-	-

**City of Mount Vernon**  
**FEDERAL PROGRAM PROJECT SCHEDULE**  
**PROJECTS THAT ENDED OR WERE IN OPERATION DURING**  
**the year ended September 30, 2011**

Federal Grantor: U.S. Department of HUD  
 Pass through Grantor: Office of Rural Affairs  
 CFDA # 14.228, Project # 7710479  
 Contract Period: 9/15/10 – 9/14/12

	<u>Federal</u>			<u>Total</u>
	<u>Budget</u>	<u>Prior Year</u>	<u>Current Year</u>	
REVENUE				
Federal	250,000	-	131,244	131,244
EXPENSES				
Water facilities	201,250	-	93,249	93,249
Engineering	23,750	-	21,335	21,335
Administration	25,000	-	16,660	16,660
TOTAL EXPENSES	250,000	-	131,244	131,244
EXCESS REVENUE OVER EXPENSES	-	-	-	-

**City of Mount Vernon**  
**FEDERAL PROGRAM PROJECT SCHEDULE**  
**PROJECTS THAT ENDED OR WERE IN OPERATION DURING**  
**the year ended September 30, 2011**

Federal Grantor: U.S. Department of HUD

Pass through Grantor: TDHCA

CFDA # 14.239, Project # 1001096

Contract Period: 5/11/09 – 11/10/11

	<u>Federal</u>			<u>Total</u>
	<u>Budget</u>	<u>Prior Year</u>	<u>Current Year</u>	
REVENUE				
Federal	405,000	-	275,838	275,838
EXPENSES				
Community Development	390,000	-	262,338	262,338
Administration	15,000	-	13,500	13,500
TOTAL EXPENSES	405,000	-	275,838	275,838
EXCESS REVENUE OVER EXPENSES	-	-	-	-

**City of Mount Vernon**  
NOTES ON ACCOUNTING POLICIES FOR FEDERAL AWARDS  
YEAR ENDED SEPTEMBER 30, 2011

1. Special revenue funds are normally used to account for resources restricted to, or designated for, specific purposes by a grantor. Federal and state financial assistance generally is accounted for in a Special Revenue Fund. The waterline grant was accounted for in the proprietary fund.
2. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Governmental Fund types are accounted for using a current financial resources measurement focus. Some federal grant funds were accounted for in a Special Revenue Fund which is a Governmental Fund type. With this measurement focus, only current assets and current liabilities and the fund balance are included on the balance sheet. Operating statements of these funds present increases and decreases in net current assets.

The modified accrual basis of accounting is used for the Governmental Fund types and Agency Funds. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e., both measurable and available, and expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on Long-Term Debt, which is recognized when due.

The Proprietary Fund Type is accounted for on a flow of economic resources measurement focus and utilizes the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the fund Statement of Net Assets. The fund equity is segregated into invested in capital assets net of related debt, restricted net assets, and unrestricted net assets.

Federal grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant, and, accordingly, when such funds are received, they are recorded as deferred revenues until earned.

3. The period of availability for federal grant funds for the purpose of liquidation of outstanding obligations made on or before the ending date of the federal project period extended 30 days beyond the federal project period ending date, in accordance with provisions in Section H, Period of Availability of Federal Funds, Part 3, OMB Circular A-133 Compliance Statement - Provisional 6/97.