

City of Mount Vernon, Texas
Financial Statements
And Independent Auditor's Report
For the year ended September 30, 2012

City of Mount Vernon, Texas
TABLE OF CONTENTS
Year ended September 30, 2012

<u>Exhibit</u>		<u>Page</u>
	Official Directory	1
	Independent Auditor's Report	2-3
	Management's Discussion and Analysis	4-8
	<u>BASIC FINANCIAL STATEMENTS</u>	
	Government Wide Statements:	
A-1	Statement of Net Assets	9
B-1	Statement of Activities	10
	Governmental Fund Financial Statements:	
C-1	Balance Sheet	11
C-2	Reconciliation for C-1	12
C-3	Statement of Revenues, Expenditures, and Changes in Fund Balance	13
C-4	Reconciliation for C-3	14
C-5	Budgetary Comparison Schedule - General Fund	15
	Proprietary Fund Financial Statements:	
D-1	Statement of Net Assets	16
D-2	Statement of Revenues, Expenses, and Changes in Fund Net Assets	17
D-3	Statement of Cash Flows	18
	<u>COMPONENT UNIT</u>	
E-1	Balance Sheet	19
E-2	Statement of Revenues, Expenditures, and Change in Fund Balance	20
	Notes to the Financial Statements	21-30
	<u>FEDERAL AWARDS SECTION</u>	
	Report on Internal Control over Financial Reporting and on Compliance and other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government</i> <i>Auditing Standards</i>	31
	Schedule of Findings and Questioned Costs	31
	Schedule of Status of Prior Findings	31
	Corrective Action Plan	31
F-1	Federal Program Project Schedules	33-35

CITY OF MOUNT VERNON

OFFICIAL DIRECTORY

Mavor

Margaret Sears

Council

**Jeff Briscoe
Saundra Dunn
Donny Richards
Jasper Scott
Kenneth Shelton**

City Administrator

Eddie Turner

City Secretary

Tina Rose



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

Bob J. Arnold, C.P.A.
Lanny G. Walker, C.P.A.
Kris Arnold, C.P.A.
Andrew T. Arnold, C.P. A.
Melissa J. Godfrey, C.P.A.

MEMBER
American Institute Of
Certified Public Accountants
Texas State Society Of
Certified Public Accountants

**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 governmental activities, the business type activities, each major fund of the 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 respective financial position of the governmental activities, the business-type activities, each major fund of the 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 November 7, 2012 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, grants and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or 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.

Respectfully submitted,

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

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

November 7, 2012

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, 2012. 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 \$10.4 million at September 30, 2012. Approximately \$4.0 million of the net assets was invested in capital assets, net of related debt. During the year, the City's expenses were approximately \$3.1 million. Approximately \$3.4 million was generated in taxes, charges for services and other revenues.

The unrestricted general fund balance was approximately \$97 thousand at September 30, 2012.

During the year, approximately \$110 thousand of principal was paid on debt.

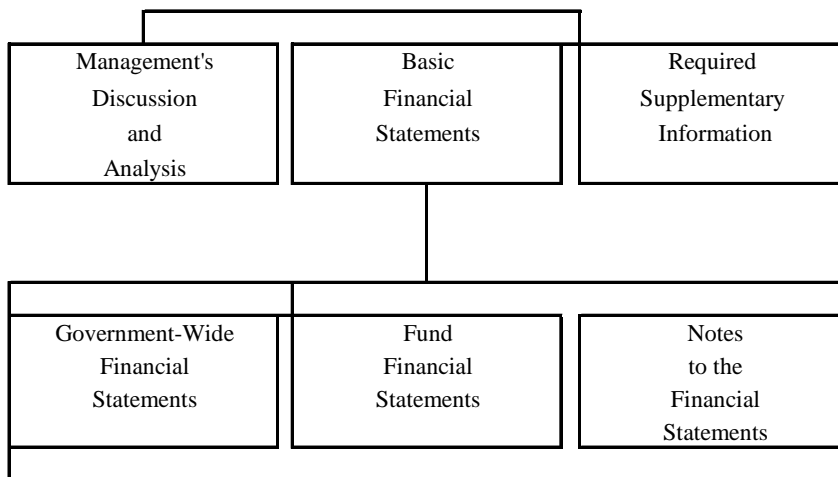
Approximately 98% of the taxes levied for 2011-12 were collected by September 30, 2012.

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 \$10.4 million at September 30, 2012.

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

	Governmental Activities		Business Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Current and other assets	1,191	1,001	1,523	1,489	2,714	2,490
Capital and non-current assets	1,942	2,140	10,672	6,914	12,614	9,054
TOTAL ASSETS	3,133	3,141	12,195	8,403	15,328	11,544
Long-term liabilities	595	680	4,195	400	4,790	1,080
Other liabilities	23	37	102	288	125	325
TOTAL LIABILITIES	618	717	4,297	688	4,915	1,405
Invested in capital assets net of related debt	1,347	1,460	2,693	6,514	4,040	7,974
Restricted	1,071	885	3,784	14	4,855	899
Unrestricted (deficit)	97	79	1,421	1,187	1,518	1,266
TOTAL NET ASSETS	2,515	2,424	7,898	7,715	10,413	10,139

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 \$274 thousand for the fiscal year ended September 30, 2012.

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 \$3.3 million. Approximately 36% of this came from property taxes, sales taxes and other taxes. Approximately 54% came from charges for services. 8% came from grants.

The total cost of all programs was \$3.1 million. Approximately 45% of this was for government and public safety. 48% was for sanitation, water and sewer.

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

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues						
<u>Program Revenues</u>						
Charges for service	519	512	1,289	994	1,808	1,506
Capital grants/contributions	288	389	-	1,407	288	1,796
<u>General Revenues</u>						
Property taxes	654	651	-	-	654	651
Sales and other taxes	544	563	-	-	544	563
Interest income	14	4	14	11	28	15
Transfers in & other	3	24	49	6	52	30
Total revenues	<u>2,022</u>	<u>2,143</u>	<u>1,352</u>	<u>2,418</u>	<u>3,374</u>	<u>4,561</u>
Expenses						
Government and public safety	1,354	1,551	-	-	1,354	1,551
Water, sewer & sanitation	302	260	1,168	1,172	1,470	1,432
Unallocated depreciation	199	199	-	-	199	199
Interest on debt	28	34	-	-	28	34
Transfers out	49	4	-	-	49	4
Total expenses	<u>1,932</u>	<u>2,048</u>	<u>1,168</u>	<u>1,172</u>	<u>3,100</u>	<u>3,220</u>
Increase (decrease) in net assets	90	95	184	1,246	274	1,341
Beginning net assets	<u>2,424</u>	<u>2,329</u>	<u>7,715</u>	<u>6,469</u>	<u>10,139</u>	<u>8,798</u>
Ending net assets	<u>2,514</u>	<u>2,424</u>	<u>7,899</u>	<u>7,715</u>	<u>10,413</u>	<u>10,139</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	
	2012	2011	2012	2011
Government, sanitation & public safety	1,932	2,048	1,076	1,256
Water & sewer	1,168	1,172	(121)	178

**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 \$1.2 million at September 30, 2012. This balance is composed of the following in thousands.

General	97
Debt service	560
Permanent fund	510
	<u>1,167</u>

The general fund balance was up \$18 thousand. The debt service fund balance was up \$55 thousand.

General Fund Budgetary Highlights

Actual expenditures were more than budgeted by approximately \$59 thousand. Actual revenues were approximately \$296 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	
	2012	2011	2012	2011	2012	2011
Land and construction in progress	171	171	200	2,481	371	2,652
Buildings and improvements	325	325	-	-	325	325
Machinery and equipment	794	794	-	-	794	794
Streets	2,035	2,035	-	-	2,035	2,035
Water and sewer system	-	-	10,090	7,554	10,090	7,554
Totals at historical cost	<u>3,325</u>	<u>3,325</u>	<u>10,290</u>	<u>10,035</u>	<u>13,615</u>	<u>13,360</u>
Total accumulated depreciation	<u>(1,383)</u>	<u>(1,185)</u>	<u>(3,402)</u>	<u>(3,121)</u>	<u>(4,785)</u>	<u>(4,306)</u>
Net capital assets	<u>1,942</u>	<u>2,140</u>	<u>6,888</u>	<u>6,914</u>	<u>8,830</u>	<u>9,054</u>

Long-Term Debt and Capital Leases

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

	Governmental Activities		Business-Type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Certificates of obligation	595	680	4,195	400	4,790	1,080
Total	<u>595</u>	<u>680</u>	<u>4,195</u>	<u>400</u>	<u>4,790</u>	<u>1,080</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, 2012

	Primary Government			Component
	Governmental Activities	Business-Type Activities	Total	Unit Economic Development Corporation
ASSETS				
Current assets				
Cash and cash equivalents	75,025	1,406,553	1,481,578	739,983
Accounts receivable, net of allowances	53,016	116,102	169,118	-
Due from State	-	-	-	-
Total current assets	<u>128,041</u>	<u>1,522,655</u>	<u>169,118</u>	<u>739,983</u>
Restricted assets				
Cash and cash equivalents	<u>1,062,899</u>	<u>3,784,580</u>	<u>4,847,479</u>	-
Non-current assets				
Due from other funds	-	-	-	-
Capital assets				
Land and construction in progress	170,582	199,986	370,568	-
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	-	10,090,406	10,090,406	-
Accumulated depreciation	<u>(1,383,209)</u>	<u>(3,402,280)</u>	<u>(4,785,489)</u>	-
Total capital assets	<u>1,941,769</u>	<u>6,888,112</u>	<u>8,829,881</u>	-
Total assets	<u><u>3,132,709</u></u>	<u><u>12,195,347</u></u>	<u><u>13,846,478</u></u>	<u><u>739,983</u></u>
LIABILITIES				
Current liabilities				
Accounts payable and accrued expenditures	5,988	6,957	12,945	-
Deferred revenues	17,463	-	17,463	-
Total current liabilities	<u>23,451</u>	<u>6,957</u>	<u>30,408</u>	-
Liabilities payable from restricted assets	<u>90,000</u>	<u>105,000</u>	<u>195,000</u>	-
Non-current liabilities				
Meter deposits	-	94,886	94,886	-
Due to other funds	-	-	-	-
Bonds payable and certificates of obligations, non-current	505,000	4,090,000	4,595,000	-
Total non-current liabilities	<u>505,000</u>	<u>4,184,886</u>	<u>4,689,886</u>	-
Total liabilities	<u><u>618,451</u></u>	<u><u>4,296,843</u></u>	<u><u>4,915,294</u></u>	<u><u>-</u></u>
NET ASSETS				
Invested in capital assets, net of related debt	1,346,769	2,693,112	4,039,881	-
Restricted for debt service	560,826	156	560,982	-
Restricted for construction and development	509,645	3,784,424	4,294,069	-
Unrestricted net assets	97,018	1,420,812	1,517,830	739,983
Total net assets	<u><u>2,514,258</u></u>	<u><u>7,898,504</u></u>	<u><u>10,412,762</u></u>	<u><u>739,983</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, 2012

	Program Revenues			Primary Government			Component Unit
	Expenses	Charges for Services	Capital Grants and Contributions	Net (Expense) Revenue	Governmental Activities	Business-Type Activities	Economic Development Corporation
Primary Government							
Governmental activities							
Sanitation	301,577	432,078	-	130,501	130,501	-	130,501
General government and public safety	1,245,411	86,920	-	(1,158,491)	(1,158,491)	-	(1,158,491)
Intergovernmental	109,772	-	288,146	178,374	178,374	-	178,374
Interest on debt	28,080	-	-	(28,080)	(28,080)	-	(28,080)
Unallocated depreciation	198,648	-	-	(198,648)	(198,648)	-	(198,648)
Total Governmental Activities	<u>1,883,488</u>	<u>518,998</u>	<u>288,146</u>	<u>(1,076,344)</u>	<u>(1,076,344)</u>	<u>-</u>	<u>(1,076,344)</u>
Business-type activities							
Water and sewer	1,167,906	1,289,184	-	121,278	-	121,278	121,278
Total business-type activities	<u>1,167,906</u>	<u>1,289,184</u>	<u>-</u>	<u>121,278</u>	<u>-</u>	<u>121,278</u>	<u>121,278</u>
Total primary government	<u>3,051,394</u>	<u>1,808,182</u>	<u>288,146</u>	<u>(955,066)</u>	<u>(1,076,344)</u>	<u>121,278</u>	<u>(955,066)</u>
Component unit							
MVEDC	183,587	-	-	-	-	-	(183,587)
Total component unit	<u>183,587</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(183,587)</u>
Change in net assets							
Net (expense) revenue					<u>(1,076,344)</u>	<u>121,278</u>	<u>(955,066)</u>
General revenues and transfers							
Taxes							
Property					653,589	-	653,589
Sales and other					544,197	-	544,197
Interest income					14,590	13,612	28,202
Other					2,863	-	2,863
Transfers in (out)					(48,781)	48,781	-
Total General Revenues					<u>1,166,458</u>	<u>62,393</u>	<u>1,228,851</u>
Changes in Net Assets					90,114	183,671	273,785
Net Assets -- Beginning					2,424,144	7,714,833	10,138,977
Net Assets -- Ending					<u>2,514,258</u>	<u>7,898,504</u>	<u>10,412,762</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, 2012

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Permanent Fund</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash and cash equivalents	75,025	-	-	-	75,025
Investments	-	-	-	-	-
Total cash and cash equivalents	<u>75,025</u>	-	-	-	<u>75,025</u>
Account receivable, net of allowances	46,283	-	6,733	-	53,016
Due from State	-	-	-	-	-
Due from other funds	-	-	-	-	-
Restricted assets:					
Cash and cash equivalents	<u>220,447</u>	-	<u>560,826</u>	<u>281,626</u>	<u>1,062,899</u>
Total assets	<u><u>341,755</u></u>	<u>-</u>	<u><u>567,559</u></u>	<u><u>281,626</u></u>	<u><u>1,190,940</u></u>
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable and accrued expenses	5,988	-	-	-	5,988
Deferred revenue	10,730	-	6,733	-	17,463
Due to other funds	-	-	-	-	-
Total liabilities	<u>16,718</u>	<u>-</u>	<u>6,733</u>	<u>-</u>	<u>23,451</u>
Fund Balances					
Reserved for:					
Debt service	-	-	560,826	-	560,826
Construction and development	228,019	-	-	281,626	509,645
Unreserved and undesignated					
Reported in the general fund	<u>97,018</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>97,018</u>
Total fund balances	<u>325,037</u>	<u>-</u>	<u>560,826</u>	<u>281,626</u>	<u>1,167,489</u>
Total liabilities and fund balances	<u><u>341,755</u></u>	<u>-</u>	<u><u>567,559</u></u>	<u><u>281,626</u></u>	<u><u>1,190,940</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, 2012

Total Fund Balances - Governmental Funds	1,167,489
<p>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 \$3,324,978 and the accumulated depreciation was \$1,184,561. 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.</p>	
	1,460,417
<p>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 2012 capital outlays and debt principal payments is to increase (decrease) net assets.</p>	
	85,000
<p>The 2012 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets.</p>	
	<u>(198,648)</u>
Net Assets, of Governmental Activities	<u><u>2,514,258</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, 2012

	General	Special Revenue	Debt Service	Permanent Fund	Total Governmental Funds
REVENUES					
Charges for services	432,078	-	-	-	432,078
Property taxes	467,753	-	185,836	-	653,589
Sales and other taxes	544,197	-	-	-	544,197
Fines and fees	86,920	-	-	-	86,920
Intergovernmental	178,374	109,772	-	-	288,146
Interest income	5,487	-	9,103	-	14,590
Other	2,863	-	-	-	2,863
Total revenues	<u>1,717,672</u>	<u>109,772</u>	<u>194,939</u>	<u>-</u>	<u>2,022,383</u>
EXPENDITURES					
Current					
General government	448,980	-	-	-	448,980
City park	17,908	-	-	-	17,908
Sanitation	301,577	-	-	-	301,577
Animal control	59,356	-	-	-	59,356
Street	174,433	-	-	-	174,433
Fire	69,270	-	-	-	69,270
Police	383,534	-	-	-	383,534
Code enforcement	24,717	-	-	-	24,717
Court	52,713	-	-	-	52,713
Housing rehabilitation	-	109,772	-	-	109,772
Capital outlay					
General government	-	-	-	-	-
City park	-	-	-	-	-
Street	-	-	-	-	-
Fire	14,500	-	-	-	14,500
Police	-	-	-	-	-
Debt service					
Principal	-	-	85,000	-	85,000
Interest	-	-	28,080	-	28,080
Total expenditures	<u>1,546,988</u>	<u>109,772</u>	<u>113,080</u>	<u>-</u>	<u>1,769,840</u>
Excess (deficiency) of revenues over expenditures	<u>170,684</u>	<u>-</u>	<u>81,859</u>	<u>-</u>	<u>252,543</u>
OTHER FINANCING SOURCES (USES)					
Transfer in (out), net	<u>(22,734)</u>	<u>-</u>	<u>(26,047)</u>	<u>-</u>	<u>(48,781)</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other uses	147,950	-	55,812	-	203,762
Fund balance, beginning of year	<u>177,087</u>	<u>-</u>	<u>505,014</u>	<u>281,626</u>	<u>963,727</u>
Fund balance, end of year	<u><u>325,037</u></u>	<u><u>-</u></u>	<u><u>560,826</u></u>	<u><u>281,626</u></u>	<u><u>1,167,489</u></u>

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, 2012

Total Net Change in Fund Balances - Governmental Funds	203,762
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 2012 capital outlays and debt principal payments is to increase (decrease) net assets.	85,000
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>(198,648)</u>
Change in Net Assets of Governmental Activities	<u><u>90,114</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, 2012

	Budgeted Amounts		Actual Amounts GAAP Basis	Variance with Final Budget Positive or (Negative)
	Original	Final		
REVENUES				
Charges for services	400,000	400,000	432,078	32,078
Property taxes	364,260	364,260	467,753	103,493
Sales and other taxes	516,500	516,500	544,197	27,697
Fines and fees	76,550	76,550	86,920	10,370
Intergovernmental	62,000	62,000	178,374	116,374
Interest income	1,800	1,800	5,487	3,687
Other	1,000	1,000	2,863	1,863
Total revenues	<u>1,422,110</u>	<u>1,422,110</u>	<u>1,717,672</u>	<u>295,562</u>
EXPENDITURES				
Current				
General government	376,496	376,496	448,980	(72,484)
City park	19,350	19,350	17,908	1,442
Sanitation	291,229	291,229	301,577	(10,348)
Animal control	67,622	67,622	59,356	8,266
Street	197,291	197,291	174,433	22,858
Fire	58,400	58,400	69,270	(10,870)
Police	388,793	388,793	383,534	5,259
Code enforcement	22,282	22,282	24,717	(2,435)
Court	52,204	52,204	52,713	(509)
Capital outlay				
General government	-	-	-	-
City park	-	-	-	-
Street	-	-	-	-
Fire	14,500	14,500	14,500	-
Police	-	-	-	-
Debt service				
Principal	-	-	-	-
Interest	-	-	-	-
Total expenditures	<u>1,488,167</u>	<u>1,488,167</u>	<u>1,546,988</u>	<u>(58,821)</u>
Excess (deficiency) of revenues over expenditures	<u>(66,057)</u>	<u>(66,057)</u>	<u>170,684</u>	<u>236,741</u>
OTHER FINANCING SOURCES (USES)				
Transfers in (out), net	<u>500</u>	<u>500</u>	<u>(22,734)</u>	<u>(23,234)</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other uses	<u>(65,557)</u>	<u>(65,557)</u>	<u>147,950</u>	<u>213,507</u>
FUND BALANCE (DEFICIT)				
Beginning of year	<u>177,087</u>	<u>177,087</u>	<u>177,087</u>	<u>-</u>
End of year	<u><u>111,530</u></u>	<u><u>111,530</u></u>	<u><u>325,037</u></u>	<u><u>213,507</u></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, 2012

	Enterprise	Total
	Fund	Proprietary
	Fund	Funds
ASSETS		
Current assets		
Cash and cash equivalents	996,358	996,358
Investments	410,195	410,195
Total cash and cash equivalents	1,406,553	1,406,553
Accounts receivable, net of allowances	116,102	116,102
Total current assets	1,522,655	1,522,655
RESTRICTED ASSETS		
Cash and cash equivalents	3,784,580	3,784,580
NON-CURRENT ASSETS		
Due from other funds	-	-
CAPITAL ASSETS		
Land and construction in progress	199,986	199,986
Water and sewer system, net of accumulated depreciation	6,688,126	6,688,126
Total capital assets	6,888,112	6,888,112
Total assets	12,195,347	12,195,347
LIABILITIES		
Current liabilities		
Accounts payable and accrued expenses	6,957	6,957
Total current liabilities	6,957	6,957
Liabilities payable from restricted assets		
Certificates of obligation, current	105,000	105,000
Total liabilities payable from restricted assets	105,000	105,000
Non-current liabilities		
Meter deposits	94,886	94,886
Certificates of obligation, non--current	4,090,000	4,090,000
Total non-current liabilities	4,184,886	4,184,886
Total liabilities	4,296,843	4,296,843
NET ASSETS		
Invested in capital assets, net of related debt	2,693,112	2,693,112
Restricted for debt service	156	156
Restricted for construction	3,784,424	3,784,424
Unrestricted	1,420,812	1,420,812
Total net assets	7,898,504	7,898,504

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, 2012

	Enterprise Fund	Total Proprietary Funds
OPERATING REVENUES		
Charges for sales and services	1,287,277	1,287,277
Other	1,907	1,907
Total operating revenues	<u>1,289,184</u>	<u>1,289,184</u>
OPERATING EXPENSES		
Water	472,283	472,283
Sewer	374,625	374,625
Depreciation	281,079	281,079
Total operating expenses	<u>1,127,987</u>	<u>1,127,987</u>
Net operating income (loss)	<u>161,197</u>	<u>161,197</u>
NON-OPERATING REVENUE (EXPENSES)		
Interest income	13,612	13,612
Interest expense	(39,919)	(39,919)
Total non-operating revenue (expenses)	<u>(26,307)</u>	<u>(26,307)</u>
Income (loss) before transfers and contributions	<u>134,890</u>	<u>134,890</u>
Operating transfers in (out), net	48,781	48,781
Capital contributions, grant	<u>-</u>	<u>-</u>
Change in net assets	183,671	183,671
Net assets, beginning of year	<u>7,714,833</u>	<u>7,714,833</u>
Net assets, end of year	<u><u>7,898,504</u></u>	<u><u>7,898,504</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, 2012

	Enterprise Fund	Total Proprietary Funds
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	1,280,987	1,280,987
Cash payments to suppliers for goods and services	(496,250)	(496,250)
Cash payments to employees for services and benefits	(351,017)	(351,017)
Net cash provided by operating activities	<u>433,720</u>	<u>433,720</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers (to) from other funds, net	48,781	48,781
Intergovernmental	-	-
Net cash provided by noncapital financing activities	<u>48,781</u>	<u>48,781</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition or construction of capital assets	(255,006)	(255,006)
Certificates of obligation issued	3,820,000	3,820,000
Payment on certificates of obligations	(25,000)	(25,000)
Interest expense	(39,919)	(39,919)
Net cash provided by (used in) capital and related financing activities	<u>3,500,075</u>	<u>3,500,075</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	13,612	13,612
Net cash provided by investing activities	<u>13,612</u>	<u>13,612</u>
Net increase (decrease) in cash and cash equivalents	3,996,188	3,996,188
Cash and cash equivalents, beginning of year	<u>1,194,945</u>	<u>1,194,945</u>
Cash and cash equivalents, end of year	<u>5,191,133</u>	<u>5,191,133</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income (loss)	161,197	161,197
Adjustment to reconcile operating income to net cash provided by operating activities:		
Depreciation	281,079	281,079
Increase in accounts receivable	(12,530)	(12,530)
Decrease in accounts payable and accrued expenses	(359)	(359)
Increase in other liabilities	4,333	4,333
Net cash provided by operating activities	<u>433,720</u>	<u>433,720</u>

The accompanying notes are an integral part of this statement

COMPONENT UNIT

City of Mount Vernon, Texas
BALANCE SHEET
COMPONENT UNIT
September 30, 2012

	<u>Industrial Development Corporation</u>
ASSETS	
Cash and cash equivalents	739,983
TOTAL ASSETS	<u>739,983</u>
LIABILITIES AND FUND BALANCES	
Liabilities	
Accounts payable and accrued expenses	-
TOTAL LIABILITIES	<u>-</u>
Fund Balances	
Unreserved and undesignated	739,983
TOTAL FUND BALANCES	<u>739,983</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>739,983</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, 2012

	<u>Industrial Development Corporation</u>
REVENUES	
Sales tax	197,297
Interest	<u>12,231</u>
Total revenues	<u>209,528</u>
EXPENDITURES	
Current	
Economic development	115,381
General and administrative	68,206
Capital outlay	-
Total expenditures	<u>183,587</u>
Excess of revenues over expenditures	25,941
Fund balance at beginning of year	<u>714,042</u>
Fund balance at end of year	<u><u>739,983</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, 2012

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, 2012

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 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, 2012

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.

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:

Capital Assets at the Beginning of the year	Historic Cost	Accumulated Depreciation	Net Value at the Beginning of the Year	Change in Net Assets
Land and construction in progress	170,582	-	170,582	
Buildings and improvements	325,290	-	325,290	
Streets and improvements	2,035,264	-	2,035,264	
Machinery and equipment	793,842	-	793,842	
Accumulated depreciation	-	(1,184,561)	(1,184,561)	
Change in Net Assets	3,324,978	(1,184,561)	2,140,417	2,140,417
Long-term Liabilities <u>at the Beginning of the year</u>			Payable at the Beginning of the Year	
Certificates of obligation			680,000	
Change in Net Assets				(680,000)
Net Adjustment to Net Assets				1,460,417

City of Mount Vernon, Texas
NOTES TO THE FINANCIAL STATEMENTS
 At September 30, 2012

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:

	Amount	Adjustments to	
		Changes in Net Assets	Adjustments to Net Assets
<u>Current year Capital Outlay</u>			
Buildings and improvements	-	-	-
Machinery and equipment	-	-	-
Streets and improvements	-	-	-
Total Capital Outlay	-	-	-
<u>Debt Principal Payments</u>			
Certificate principal	85,000	85,000	85,000
Total Principal Payments	85,000	85,000	85,000
Total Adjustment to Net Assets		85,000	85,000

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, 2012

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, 2012, the carrying amount of the City’s deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was approximately \$5,900,000. The City’s cash deposits at September 30, 2012 and during the year ended September 30, 2012 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 \$7,100,000.
 - c. The combined balances of cash, savings, and time deposit accounts amounted to approximately \$5,950,000.
 - 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 purchases 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, 2012 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 2011 assessed tax (net) was approximately \$636,000 levied at the rate of \$0.621476 per hundred dollar valuation.

City of Mount Vernon, Texas
NOTES TO THE FINANCIAL STATEMENTS
 At September 30, 2012

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, 2012, were as follows:

	<u>Property</u>	<u>Charges for</u>		<u>Total</u>
	<u>Taxes</u>	<u>Services</u>	<u>Other</u>	<u>Receivables</u>
Governmental Activities:				
General Fund	23,844	35,553	-	59,397
Debt Service Fund	11,221	-	-	11,221
Total	<u>35,065</u>	<u>35,553</u>	<u>-</u>	<u>70,618</u>
Amounts not scheduled for collection during the subsequent year	17,602	-	-	17,602
Business Type Activities:				
Major Enterprise Fund	-	116,102	-	116,102
Amounts not scheduled for collection during the subsequent year	-	-	-	-

Payables at September 30, 2012, were as follows:

		<u>Salaries and</u>		<u>Total</u>
	<u>Accounts</u>	<u>Benefits</u>	<u>Other</u>	<u>Payables</u>
Governmental Activities:				
General Fund	-	5,988		5,988
Amounts not scheduled for payment during the subsequent year	-	-	-	-
Business Type Activities:				
Major Enterprise Fund	2,971	3,986	-	6,957
Amounts not scheduled for payment during the subsequent year	-	-	-	-

City of Mount Vernon, Texas
NOTES TO THE FINANCIAL STATEMENTS
 At September 30, 2012

E. CAPITAL ASSET ACTIVITY

Capital asset activity for the City for the year ended September 30, 2012, was as follows:

	Primary Government				Ending Balance
	Beginning Balance	Additions	Retirements	Adjustments	
Governmental Activities:					
Land and construction in progress	170,582	-	-	-	170,582
Buildings and improvements	325,290	-	-	-	325,290
Machinery and equipment	793,842	-	-	-	793,842
Streets	2,035,264	-	-	-	2,035,264
Totals at historic cost	<u>3,324,978</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,324,978</u>
Less accumulated depreciation for:					
Buildings, streets, improvements, machinery and equipment	(1,184,561)	(198,648)	-	-	(1,383,209)
Total accumulated depreciation	<u>(1,184,561)</u>	<u>(198,648)</u>	<u>-</u>	<u>-</u>	<u>(1,383,209)</u>
Governmental activities capital, assets net	<u>2,140,417</u>	<u>(198,648)</u>	<u>-</u>	<u>-</u>	<u>1,941,769</u>
Business-Type Activities:					
Land and construction in progress	2,480,964	-	(2,280,978)	-	199,986
Water and sewer system	7,554,422	2,535,984	-	-	10,090,406
Totals at historic cost	<u>10,035,386</u>	<u>2,535,984</u>	<u>(2,280,978)</u>	<u>-</u>	<u>10,290,392</u>
Less accumulated depreciation for:					
Water and sewer system	(3,121,201)	(281,079)	-	-	(3,402,280)
Total accumulated depreciation	<u>(3,121,201)</u>	<u>(281,079)</u>	<u>-</u>	<u>-</u>	<u>(3,402,280)</u>
Business-Type Activities					
Capital assets, net	<u>6,914,185</u>	<u>2,254,905</u>	<u>(2,280,978)</u>	<u>-</u>	<u>6,888,112</u>
Primary Government					
Capital assets, net	<u>9,054,602</u>	<u>2,056,257</u>	<u>-</u>	<u>-</u>	<u>11,110,859</u>
Depreciation expense was charged to governmental functions as follows:					
	Governmental	Business-Type			
	Activities	Activities			
Unallocated	198,648	-			
Water and sewer system	-	281,079			
	<u>198,648</u>	<u>281,079</u>			

City of Mount Vernon, Texas
NOTES TO THE FINANCIAL STATEMENTS
 At September 30, 2012

F. CHANGES IN LONG-TERM DEBT

The following is a summary of long-term debt transactions for the year ended September 30, 2012.

	Balance at 10/01/11	Issued	Retired	Balance at 9/30/12	Due Within One Year
Primary Government					
Governmental Activities:					
Combination Tax & Revenue Certificates of					
Obligation, Series 1998, 2.9% - 4.25%	680,000	-	(85,000)	595,000	(90,000)
Total Bonds payable	680,000	-	(85,000)	595,000	(90,000)
Business-Type Activities:					
Certificates of Obligation, Series 2007, 3.85%	400,000	-	(25,000)	375,000	(25,000)
Certificates of Obligation, Series 2012, 2.71%	-	3,820,000	-	3,820,000	(80,000)
Total Other Liabilities	400,000	-	(25,000)	4,195,000	(105,000)
Total primary governmental debt	1,080,000	-	(110,000)	4,790,000	(195,000)

The annual requirements to amortize bond debt payable as of September 30, 2012, follow:

Years Ending	Governmental Activities			Years Ending	Business-Type Activities		
	Principal	Interest	Total		Principal	Interest	Total
9/30				9/30			
2013	90,000	24,723	114,723	2013	105,000	120,066	225,066
2014	95,000	21,123	116,123	2014	110,000	114,348	224,348
2015	95,000	17,228	112,228	2015	115,000	111,082	226,082
2016	100,000	13,285	113,285	2016	115,000	107,680	222,680
2017	105,000	9,085	114,085	2017	120,000	104,279	224,279
2018	110,000	4,675	114,675	2018-2022	630,000	467,390	1,097,390
Totals	595,000	90,119	685,119	2023-2027	705,000	369,835	1,074,835
				2028-2032	665,000	275,878	940,878
				2033-2037	755,000	181,028	936,028
				2038-2042	875,000	72,493	947,493
				Totals	4,195,000	1,924,079	6,119,079

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, 2012, 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, 2012, and terms of coverage and premium costs are included in the contractual provisions. For the year ended September 30, 2012, 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, 2012

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 3/1/12:*

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 3/1/12 to the actuary in calculating the 12/31/11 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, 2011 valuation is effective for rates beginning in January 2012).

City of Mount Vernon, Texas
NOTES TO THE FINANCIAL STATEMENTS
 At September 30, 2012

I. RETIREMENT PLAN continued

Schedule of Actuarial Liabilities and Funding Progress

Actuarial Valuation Date	12/31/11
Actuarial Value of Assets	2,143,087
Actuarial Accrued Liability	2,302,350
Percentage Funded	93.1%
Unfunded (Overfunded) Actuarial Accrued Liability (UAAL)	159,443
Annual Covered Payroll	861,666
UAAL as a Percentage of Covered Payroll	20.2%
Net Pension Obligation (NPO) at the Beginning of Period	-
Annual Pension Cost:	
Annual required contribution (ARC)	86,684
Contributions Made	<u>(86,684)</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 12/31/11 valuations are contained in the 2011 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, 2012, the City paid interest and fiscal charges of \$39,919 from the enterprise fund.

K. INTERFUND TRANSFERS

During the year a net transfer of \$48,781 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 2012, 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, 2012.

O. LITIGATION

As of September 30, 2012 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 November 7, 2012, 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

Bob J. Arnold, C.P.A.
Lanny G. Walker, C.P.A.
Kris Arnold, C.P.A.
Andrew T. Arnold, C.P. A.
Melissa J. Godfrey, C.P.A.

MEMBER
American Institute Of
Certified Public Accountants

Texas State Society Of
Certified Public Accountants

**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***

**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, 2012, which collectively comprise the City's basic financial statements and have issued our report thereon dated November 7, 2012. 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.

November 7, 2012

City of Mount Vernon
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended September 30, 2012

Type of Report on Financial Statements:	Unqualified
Reportable Conditions:	None
Material Weaknesses Involving Control Deficiencies:	None
Noncompliance Material to the Control Deficiencies:	None
Questioned Costs:	None

SCHEDULE OF STATUS OF PRIOR FINDINGS
For the year ended September 30, 2012

N/A

CORRECTIVE ACTION PLAN
For the year ended September 30, 2012

N/A

City of Mount Vernon
FEDERAL PROGRAM PROJECT SCHEDULE
PROJECTS THAT ENDED OR WERE IN OPERATION DURING
the year ended September 30, 2012

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 – 2/21/10

	Federal			
	Budget	Prior Year	Current Year	Total
REVENUE				
Federal	2,255,000	2,063,659	190,075	2,253,734
EXPENSES				
Water line replacement	2,255,000	2,063,659	190,075	2,253,734
TOTAL EXPENSES	2,255,000	2,063,659	190,075	2,253,734
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, 2012

Federal Grantor: U.S. Department of HUD
 Pass through Grantor: TDA
 CFDA # 14.228, Project # 710479
 Contract Period: 9/15/10 – 9/14/12

	Federal				
	Budget	Prior Year	Current Year	Total	
REVENUE					
Federal	250,000	131,244	106,406	237,650	
EXPENSES					
Water facilities	201,250	93,249	95,651	188,900	
Engineering	23,750	21,335	2,415	23,750	
Administration	25,000	16,660	8,340	25,000	
TOTAL EXPENSES	250,000	131,244	106,406	237,650	
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, 2012

Federal Grantor: U.S. Department of HUD

Pass through Grantor: TDHCA

CFDA # 14.239, Project # 1001096

Contract Period: 5/11/09 – 11/10/11

	Federal				
	Budget	Prior Year	Current Year	Total	
REVENUE					
Federal	405,000	275,838	109,772	385,610	
EXPENSES					
Community Development	390,000	262,338	108,441	370,779	
Administration	15,000	13,500	1,331	14,831	
TOTAL EXPENSES	405,000	275,838	109,772	385,610	
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, 2012

Federal Grantor: U.S. Department of HUD

Pass through Grantor: TDA

CFDA # 14.228, Project # 711302

Contract Period: 2/14/12 – 2/13/14

		Federal			
	Budget	Prior Year	Current Year	Total	
REVENUE					
Federal	150,000	-	-	-	
EXPENSES					
Sidewalks & lighting	135,000	-	-	-	
Administration	15,000	-	-	-	
TOTAL EXPENSES	150,000	-	-	-	
EXCESS REVENUE OVER EXPENSES	-	-	-	-	