

CITY OF MT. VERNON, MISSOURI

BASIC FINANCIAL STATEMENTS

Year ended December 31, 2013

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CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund, of the City of Mt. Vernon, Missouri, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the City of Mt. Vernon, Missouri, as of December 31, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 18, 2014, on our consideration of the City of Mt. Vernon, Missouri's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Mt. Vernon, Missouri's internal control over financial reporting and compliance.

KPM CPAs, PC

KPM CPAs, PC
March 18, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF MT. VERNON, MISSOURI
December 31, 2013

The Management's Discussion and Analysis of the City of Mt. Vernon's financial performance provides an overview of the City's financial activities for the fiscal year ended December 31, 2013. Please read it in conjunction with the City's financial statements, which begin on page 15.

Financial Highlights

- The net position of the City's governmental activities decreased by \$26,990 as a result of current year activities. The net position of the City's business activities increased by \$156,775 for the year.
- The assets of the City exceeded its liabilities as of December 31, 2013, by \$24,868,791 (net position). Of this amount \$7,174,501 was unrestricted and may be used to meet future obligations of the City.
- Total long-term liabilities of the City decreased by \$467,794.

Using This Report

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

Government-Wide Financial Statements

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF MT. VERNON, MISSOURI
December 31, 2013

Government-Wide Financial Statements (continued)

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

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

Fund Financial Statements

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF MT. VERNON, MISSOURI
December 31, 2013

Notes to the Basic Financial Statements

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

Government-Wide Financial Analysis

NET POSITION

The following table presents the condensed Statement of Net Position for the City as of December 31, 2013, and December 31, 2012:

	Governmental Activities	Business-Type Activities	Total December 31, 2013	Total December 31, 2012
Current and other assets	\$ 2,088,749	\$ 7,709,524	\$ 9,798,273	\$ 9,614,872
Capital assets	12,206,201	16,145,908	28,352,109	28,962,205
TOTAL ASSETS	14,294,950	23,855,432	38,150,382	38,577,077
Other liabilities	166,448	716,282	882,730	971,416
Long-term liabilities	486,908	11,911,953	12,398,861	12,866,655
TOTAL LIABILITIES	653,356	12,628,235	13,281,591	13,838,071
Net position:				
Net investment in capital assets	11,666,201	3,973,338	15,639,539	15,711,363
Restricted	1,097,217	957,534	2,054,751	2,106,860
Unrestricted	878,176	6,296,325	7,174,501	6,920,783
TOTAL NET POSITION	\$ 13,641,594	\$ 11,227,197	\$ 24,868,791	\$ 24,739,006

Total net position of the City increased by \$129,785 for the year due to current year activity. Total liabilities for the City have decreased by \$556,480. Restricted net position of the City totaled \$2,054,751 as of December 31, 2013.

MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF MT. VERNON, MISSOURI
December 31, 2013

CHANGES IN NET POSITION

	Governmental Activities	Business-Type Activities	Total Year Ended December 31, 2013	Total Year Ended December 31, 2012
REVENUES				
Program Revenues				
Charges for services	\$ 204,746	\$ 8,518,218	\$ 8,722,964	\$ 8,129,019
Operating grants and contributions	7,000	-	7,000	6,000
Capital grants and contributions	92,474	-	92,474	51,037
General Revenues				
Sales taxes	1,051,640	-	1,051,640	1,065,913
Motor vehicle and gas taxes	165,973	-	165,973	164,685
Other taxes	27,880	-	27,880	28,414
Franchise fees	91,609	-	91,609	87,748
Interest	45,457	219,134	264,591	267,388
Other revenue	24,544	-	24,544	31,102
Transfers	784,432	(784,432)	-	-
TOTAL REVENUES AND TRANSFERS	2,495,755	7,952,920	10,448,675	9,831,306
EXPENSES				
Administrative	121,049	-	121,049	124,127
Police	634,498	-	634,498	607,348
Municipal court	20,838	-	20,838	32,756
Fire	92,492	-	92,492	74,254
Animal control	11,435	-	11,435	10,629
Parks	242,685	-	242,685	242,454
Community center	98,085	-	98,085	88,556
Street	821,495	-	821,495	838,318
Planning and zoning	57,131	-	57,131	65,309
Transportation	91,418	-	91,418	84,852
Airport	16,959	-	16,959	16,011
Golf	247,285	-	247,285	246,338
Economic development	31,241	-	31,241	18,592
Industrial development	-	-	-	1,900
Debt service	36,134	-	36,134	49,398
Electric	-	5,930,257	5,930,257	5,346,004
Water	-	838,394	838,394	917,202
Sewer	-	1,027,494	1,027,494	1,097,869
TOTAL EXPENSES	2,522,745	7,796,145	10,318,890	9,861,917
INCREASE (DECREASE) IN NET POSITION	\$ (26,990)	\$ 156,775	\$ 129,785	\$ (30,611)

MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF MT. VERNON, MISSOURI
December 31, 2013

Governmental Activities

Governmental activities decreased the net position of the City by \$26,990. Tax revenues for the City were \$1,337,102, which represents 54% of the funding of these activities. Program and other revenues for the functions totaled \$374,221, or 15% of the funding. Transfers from the City business-type activities totaled \$784,432, which represents 31% of the funding of these activities. The following table shows the cost of the City's programs as well as each program's net cost (total cost less revenues generated by the activities). The net cost shows the financial burden that was placed on the taxpayers by each of these functions.

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

	Total Cost of Services	Net Cost of Services
Administration	\$ 121,049	\$ 114,507
Police	634,498	585,074
Municipal court	20,838	20,838
Fire	92,492	92,492
Animal control	11,435	10,586
Parks	242,685	212,795
Community center	98,085	76,520
Street	821,495	741,489
Planning and zoning	57,131	50,660
Transportation	91,418	80,106
Airport	16,959	16,959
Golf	247,285	149,124
Economic development	31,241	31,241
Debt service	36,134	36,134
	<u>\$ 2,522,745</u>	<u>\$ 2,218,525</u>

Business-Type Activities

Business-type activities increased the City's net position by \$156,775. Last year the business-type activities increased net position by \$193,355.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF MT. VERNON, MISSOURI
December 31, 2013**

Financial Analysis of the City's Funds

The combined fund balances of the City's governmental funds as of December 31, 2013, were \$2,080,181. The General Fund increased by \$23,189. The Special Sales Tax Fund decreased by \$24,858. The Industrial Development Fund decreased by \$6,727. The Debt Service Fund decreased by \$146,069.

General Fund Budgetary Highlights

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

- The original revenue budget of \$1,224,540 was increased to \$1,400,625.
- The original expenditures budget of \$2,168,196 was decreased to \$1,958,023.

Capital Assets and Debt Administration

Capital Assets

Capital assets of the governmental activities were \$12,206,201 (net of accumulated depreciation) as of December 31, 2013. This represents a \$28,089 decrease from the prior year. Capital assets for business-type activities were \$16,145,908 as of December 31, 2013. This represents a decrease of \$582,007.

Debt

Total debt of the governmental activities as of December 31, 2013, was \$641,908. Governmental activities debt consists of \$540,000 in 1995 General Obligation Industrial Bonds, \$93,797 in compensated absences, and \$8,111 in net pension obligation payable.

Total debt of the business-type activities as of December 31, 2013, was \$12,221,953. This consists of \$1,365,000 in 2008 Certificates of Participation, \$3,320,000 in 2005 Certificates of Participation, \$2,115,000 in 2011 Certificates of Participation, \$5,401,216 in Series 2008 Revenue Bonds, and \$20,737 in compensated absences.

MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF MT. VERNON, MISSOURI
December 31, 2013

Economic Factors and Next Year's Budget

There are several factors that have occurred during the last fiscal year that will influence the economy of the City over the course of the fiscal year beginning January 1, 2014. Over the past several years Mount Vernon has experienced a drop in sales tax revenue as citizens struggled with the effects of the recession which also caused the closing of some business and the downsizing of others. The Supreme Court's decision concerning the collection of sales tax on purchases outside the state without a Use Tax, these as well as other factors such rising health insurance cost have had an impact on the City's budgets. In an effort to overcome these negative effects the City has been working to recruit new business to town by annexing highway right of way which will allow individuals and developers easier access to City Utilities. During 2013 the City was able to recruit a large retailer which will begin construction of their new facility in the spring of 2014. This development will create 200 new jobs and is anticipated to draw other businesses commercial/retail and manufacturing/ industrial into the city. The City also saw the expansion of one of our major manufacturing employers and is anticipating more development to occur during 2014 and 2015. The City purchased land which will be used to recruit continued development and job creation and created a new Mixed Use Commercial and Residential District to encourage home based occupations and businesses. The current budget reflects the expenditure of some reserve funds to build infrastructure and utility expansion to new developments and potential developments. The City's budget is conservative in nature with the anticipation of some moderate growth in tax revenue.

Contacting the City's Financial Management

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

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

Dave Eden, Mayor
Max Springer, City Administrator
Shannon Neely, City Clerk

CITY OF MT. VERNON, MISSOURI
STATEMENT OF NET POSITION
December 31, 2013

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current			
Cash and cash equivalents - unrestricted	\$ 583,207	\$ 3,503,921	\$ 4,087,128
Investments	410,759	1,728,722	2,139,481
Interest receivable	636	2,454	3,090
Taxes receivable	186,392	-	186,392
Utilities receivable, net	-	1,051,400	1,051,400
Other receivable	32,241	-	32,241
Note receivable	617,093	-	617,093
Inventory	-	371,722	371,722
Noncurrent			
Restricted cash and cash equivalents	221,356	1,051,305	1,272,661
Restricted investments	37,065	-	37,065
Capital Assets:			
Non-depreciable	1,221,961	203,461	1,425,422
Depreciable, net	10,984,240	15,942,447	26,926,687
TOTAL ASSETS	14,294,950	23,855,432	38,150,382
LIABILITIES			
Current			
Accounts payable	6,500	58,420	64,920
Accrued expenses	2,065	4,947	7,012
Deposits payable	-	93,771	93,771
Court bonds payable	3	-	3
Accrued interest payable	2,880	249,144	252,024
Current portion of long-term debt	155,000	310,000	465,000
	166,448	716,282	882,730
Noncurrent			
Compensated absences payable	93,797	20,737	114,534
Net pension obligation payable	8,111	-	8,111
General obligation bonds	385,000	-	385,000
Revenue bonds payable, net	-	5,306,216	5,306,216
Certificates of participation payable	-	6,585,000	6,585,000
	486,908	11,911,953	12,398,861
TOTAL LIABILITIES	653,356	12,628,235	13,281,591
NET POSITION			
Net investment in capital assets	11,666,201	3,973,338	15,639,539
Restricted	1,097,217	957,534	2,054,751
Unrestricted	878,176	6,296,325	7,174,501
TOTAL NET POSITION	\$ 13,641,594	\$ 11,227,197	\$ 24,868,791

See accompanying notes.

CITY OF MT. VERNON, MISSOURI
BALANCE SHEET – GOVERNMENTAL FUNDS
December 31, 2013

	Special Revenue Funds				Total Governmental Funds
	General Fund	Special Sales Tax Fund	Industrial Development Fund	Debt Service Fund	
ASSETS					
Cash and cash equivalents - unrestricted	\$ 76,005	\$ 307,990	\$ 199,212	\$ -	\$ 583,207
Investments - unrestricted	-	410,759	-	-	410,759
Taxes receivable	150,567	35,825	-	-	186,392
Other receivable	32,241	-	-	-	32,241
Interest receivable	-	614	-	22	636
Notes receivable	-	-	-	617,093	617,093
Restricted cash and cash equivalents	71,414	-	-	149,942	221,356
Restricted investments	-	-	-	37,065	37,065
TOTAL ASSETS	\$ 330,227	\$ 755,188	\$ 199,212	\$ 804,122	\$ 2,088,749
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 6,500	\$ -	\$ -	\$ -	\$ 6,500
Accrued expenses	2,065	-	-	-	2,065
Court bonds payable	3	-	-	-	3
TOTAL LIABILITIES	8,568	-	-	-	8,568
Fund Balances					
Nonspendable:					
Notes receivable	-	-	-	462,093	462,093
Restricted for:					
Debt service	-	-	-	342,029	342,029
Capital improvements	-	755,188	-	-	755,188
Assigned to:					
Industrial development	-	-	199,212	-	199,212
Economic development	71,411	-	-	-	71,411
Unassigned	250,248	-	-	-	250,248
TOTAL FUND BALANCES	321,659	755,188	199,212	804,122	2,080,181
TOTAL LIABILITIES AND FUND BALANCES	\$ 330,227	\$ 755,188	\$ 199,212	\$ 804,122	\$ 2,088,749

See accompanying notes.

CITY OF MT. VERNON, MISSOURI
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF
 NET POSITION
 December 31, 2013

Fund balance - total governmental funds	\$ 2,080,181
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds:	
Governmental capital assets	38,577,241
Less accumulated depreciation	<u>(26,371,040)</u>
	12,206,201
Compensated absences are not accrued in the governmental funds but rather is recognized as an expenditure when paid	(93,797)
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.	(2,880)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds	<u>(548,111)</u>
Net Position of Governmental Activities	<u><u>\$ 13,641,594</u></u>

See accompanying notes.

CITY OF MT. VERNON, MISSOURI
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –
GOVERNMENTAL FUNDS
Year Ended December 31, 2013

	Special Revenue Funds				Total Governmental Funds
	General Fund	Special Sales Tax Fund	Industrial Development Fund	Debt Service Fund	
REVENUES					
Taxes	\$ 1,071,457	\$ 265,646	\$ -	\$ -	\$ 1,337,103
Licenses and permits	12,637	-	-	-	12,637
Intergovernmental revenues	92,474	-	-	-	92,474
Charges for services	155,151	-	-	-	155,151
Fines and forfeitures	35,245	-	-	-	35,245
Miscellaneous	33,661	2,296	325	42,431	78,713
TOTAL REVENUES	1,400,625	267,942	325	42,431	1,711,323
EXPENDITURES					
Current					
Administrative	117,711	-	-	-	117,711
Police	649,263	-	-	-	649,263
Municipal court	20,838	-	-	-	20,838
Fire	133,881	-	-	-	133,881
Animal control	11,435	-	-	-	11,435
Parks	239,861	-	-	-	239,861
Community center	72,518	-	-	-	72,518
Street	291,376	-	-	-	291,376
Planning and zoning	58,206	-	-	-	58,206
Transportation	85,703	-	-	-	85,703
Airport	7,486	-	-	-	7,486
Golf	238,504	-	-	-	238,504
Economic development	31,241	-	-	-	31,241
Industrial development	-	-	507,997	-	507,997
Debt Service					
Principal and interest	-	-	-	184,200	184,200
TOTAL EXPENDITURES	1,958,023	-	507,997	184,200	2,650,220
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	(557,398)	267,942	(507,672)	(141,769)	(938,897)
OTHER FINANCING SOURCES (USES)					
Operating transfers in (out)	580,587	(292,800)	500,945	(4,300)	784,432
TOTAL OTHER FINANCING SOURCES (USES)	580,587	(292,800)	500,945	(4,300)	784,432
EXCESS (DEFICIT) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER (USES)	23,189	(24,858)	(6,727)	(146,069)	(154,465)
FUND BALANCE, January 1	298,470	780,046	205,939	950,191	2,234,646
FUND BALANCE, December 31	\$ 321,659	\$ 755,188	\$ 199,212	\$ 804,122	\$ 2,080,181

See accompanying notes.

CITY OF MT. VERNON, MISSOURI
 RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
 BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
 Year Ended December 31, 2013

Net change in fund balances - total governmental funds \$ (154,465)

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

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

Capital outlay	762,560
Depreciation	(790,649)
	<u>(28,089)</u>

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

7,498

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

Repayment of principal on bonds and leases	145,000
Interest	3,066
	<u>148,066</u>

Change in net position of governmental activities \$ (26,990)

See accompanying notes.

CITY OF MT. VERNON, MISSOURI
STATEMENT OF NET POSITION – PROPRIETARY FUNDS
December 31, 2013

	Enterprise Funds			Total
	Electric Fund	Water Fund	Sewer Fund	
ASSETS				
Current Assets				
Cash and cash equivalents	\$ 1,895,024	\$ 1,045,755	\$ 563,142	\$ 3,503,921
Investments	1,523,343	205,379	-	1,728,722
Interest receivable	2,147	307	-	2,454
Utilities receivable, net	863,482	88,827	99,091	1,051,400
Inventory	323,512	48,210	-	371,722
TOTAL CURRENT ASSETS	4,607,508	1,388,478	662,233	6,658,219
Restricted Assets				
Cash and cash equivalents	93,771	642,239	315,295	1,051,305
TOTAL RESTRICTED ASSETS	93,771	642,239	315,295	1,051,305
Property, Plant and Equipment,				
Non-depreciable	145,617	-	57,844	203,461
Depreciable	6,748,132	5,905,951	14,993,261	27,647,344
Accumulated Depreciation	(2,635,446)	(2,037,119)	(7,032,332)	(11,704,897)
TOTAL PROPERTY, PLANT, AND EQUIPMENT	4,258,303	3,868,832	8,018,773	16,145,908
TOTAL ASSETS	8,959,582	5,899,549	8,996,301	23,855,432
LIABILITIES				
Current Liabilities				
Accounts payable	51,420	7,000	-	58,420
Accrued expenses	4,639	308	-	4,947
Accrued interest payable	10,533	92,268	146,343	249,144
Utility deposits	93,771	-	-	93,771
Current maturities of long-term debt	65,000	150,000	95,000	310,000
TOTAL CURRENT LIABILITIES	225,363	249,576	241,343	716,282
Long-Term Liabilities				
Compensated absences payable	8,315	12,422	-	20,737
Revenue bonds payable, net	-	-	5,306,216	5,306,216
Certificates of participation payable	1,300,000	5,285,000	-	6,585,000
TOTAL LONG-TERM LIABILITIES	1,308,315	5,297,422	5,306,216	11,911,953
TOTAL LIABILITIES	1,533,678	5,546,998	5,547,559	12,628,235
FINANCIAL POSITION				
Net investment in capital assets	2,893,303	(1,566,168)	2,646,203	3,973,338
Restricted	-	642,239	315,295	957,534
Unrestricted	4,532,601	1,276,480	487,244	6,296,325
TOTAL NET POSITION	\$ 7,425,904	\$ 352,551	\$ 3,448,742	\$ 11,227,197

See accompanying notes.

CITY OF MT. VERNON, MISSOURI
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION – PROPRIETARY
FUNDS
Year Ended December 31, 2013

	Enterprise Funds			Total
	Electric Fund	Water Fund	Sewer Fund	
OPERATING REVENUES				
Charges for services	\$ 7,083,732	\$ 589,857	\$ 760,784	\$ 8,434,373
Miscellaneous	33,707	43,868	6,270	83,845
TOTAL OPERATING REVENUES	7,117,439	633,725	767,054	8,518,218
OPERATING EXPENSES				
Salaries and wages	196,545	119,083	-	315,628
Employee benefits	57,070	40,239	-	97,309
Gas and oil	7,092	10,140	227	17,459
Materials and supplies	276	43,484	12,965	56,725
Insurance and taxes	20,829	18,652	11,936	51,417
Power purchased	5,013,061	-	60,347	5,073,408
Telephone and utilities	4,504	4,281	7,603	16,388
Repairs and maintenance	128,219	87,065	48,590	263,874
Professional fees	11,048	7,665	110,927	129,640
Other expenses	70,088	19,530	8,772	98,390
Depreciation	240,399	169,065	326,974	736,438
Administrative	117,000	98,000	114,000	329,000
TOTAL OPERATING EXPENSES	5,866,131	617,204	702,341	7,185,676
OPERATING INCOME	1,251,308	16,521	64,713	1,332,542
NONOPERATING REVENUES (EXPENSES)				
Interest income	10,028	2,060	207,046	219,134
Interest expense	(64,126)	(221,190)	(325,153)	(610,469)
TOTAL NONOPERATING REVENUES (EXPENSES)	(54,098)	(219,130)	(118,107)	(391,335)
INCOME (LOSS) BEFORE OPERATING TRANSFERS	1,197,210	(202,609)	(53,394)	941,207
OPERATING TRANSFERS IN (OUT)	(1,077,232)	292,800	-	(784,432)
NET INCOME (LOSS)	119,978	90,191	(53,394)	156,775
NET POSITION, January 1	7,305,926	262,360	3,502,136	11,070,422
NET POSITION, December 31	\$ 7,425,904	\$ 352,551	\$ 3,448,742	\$ 11,227,197

See accompanying notes.

CITY OF MT. VERNON, MISSOURI
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS
Year Ended December 31, 2013

	Enterprise Funds			
	Electric Fund	Water Fund	Sewer Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	\$ 6,994,148	\$ 629,913	\$ 756,152	\$ 8,380,213
Cash paid to suppliers	(5,341,643)	(346,779)	(378,281)	(6,066,703)
Cash paid to employees	(257,313)	(114,541)	-	(371,854)
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,395,192	168,593	377,871	1,941,656
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Operating transfer in (out)	(1,077,232)	292,800	-	(784,432)
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	(1,077,232)	292,800	-	(784,432)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition and construction of capital assets	(74,688)	(50,948)	(28,795)	(154,431)
Payment of bond principal	-	-	(92,325)	(92,325)
Payment of certificates of participation	(60,000)	(245,000)	-	(305,000)
Payment of interest expense	(64,589)	(224,178)	(327,173)	(615,940)
NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(199,277)	(520,126)	(448,293)	(1,167,696)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received	10,583	2,138	207,046	219,767
Proceeds from maturity of investments	226,882	(1,212)	-	225,670
NET CASH PROVIDED BY INVESTING ACTIVITIES	237,465	926	207,046	445,437
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	356,148	(57,807)	136,624	434,965
CASH AND CASH EQUIVALENTS, Beginning of period	1,632,647	1,745,801	741,813	4,120,261
CASH AND CASH EQUIVALENTS, End of period	1,988,795	1,687,994	878,437	4,555,226
LESS RESTRICTED CASH AND CASH EQUIVALENTS	93,771	642,239	315,295	1,051,305
UNRESTRICTED CASH AND CASH EQUIVALENTS	\$ 1,895,024	\$ 1,045,755	\$ 563,142	\$ 3,503,921
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:				
Operating income	\$ 1,251,308	\$ 16,521	\$ 64,713	\$ 1,332,542
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	240,399	169,065	326,974	736,438
(Increase) decrease in:				
Utilities receivable	(124,084)	(3,812)	(10,902)	(138,798)
Inventory	10,917	(478)	-	10,439
Increase (decrease) in:				
Accounts payable	19,557	(17,245)	(2,914)	(602)
Accrued expenses	(1,341)	156	-	(1,185)
Meter deposits payable	793	-	-	793
Compensated absences payable	(2,357)	4,386	-	2,029
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 1,395,192	\$ 168,593	\$ 377,871	\$ 1,941,656

See accompanying notes.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The accounting policies of the City conform to accounting principles generally accepted in the United States of America as applicable to governments. The following is a summary of the more significant policies.

Financial Reporting Entity

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

Government-Wide and Fund Financial Statements

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

FUND FINANCIAL STATEMENTS

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

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

The City reports the following major governmental funds:

General Fund: The General Fund is the general operating fund of the City. It is used to account for all financial resources not accounted for in other funds.

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

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

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

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The City reports the following major proprietary funds:

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

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

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

Capital Assets

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

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

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

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

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Pooled Cash and Cash Equivalents

The City pools cash resources of its various funds in order to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. The balance in the pooled cash account is available to meet current operating requirements. For purposes of the statement of cash flows, cash equivalents are deposits available on demand or with an original maturity of less than three months at the time of purchase.

Compensated Absences

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

Use of Estimates

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

Inventories

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

Interest Capitalization

Interest expense that relates to the cost of acquiring or constructing fixed assets in the Enterprise Funds is capitalized. Interest expense incurred in connection with construction of capital assets has been reduced by interest earned on the investment of funds borrowed for construction in accordance with Financial Accounting Standards Board (FASB) Codification Topic No. 835-20-30 – *The Amount of Interest Cost to be Capitalized in Situations Involving Certain Tax Exempt Borrowings and Certain Gifts and Grants*. There was no interest capitalized during the current fiscal period.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund Balance Classification

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

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

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

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

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

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

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

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Net Position

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

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

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

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

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

NOTE B – CASH AND CASH EQUIVALENTS

State statutes require that the City's deposits be insured or collateralized in the name of the City by the trust department of a bank that does not hold the collateralized deposits. As of December 31, 2013, all bank balances on deposit are entirely insured or collateralized.

CITY OF MT. VERNON, MISSOURI
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

NOTE C – INVESTMENTS

Investments of the City as of December 31, 2013, consist of the following:

<u>Investment Type</u>	<u>Maturity</u>	<u>Total</u>
Certificates of Deposit	1/31/2014 - 9/14/2014	<u>\$ 2,176,546</u>

Certificates of Deposit

Certificates of deposit are classified as investments but are considered deposits for custodial risk determination. State statutes require that the City's deposits be collateralized in the name of the City by the trust department of a bank that does not hold the collateralized deposits. As of December 31, 2013, all certificates of deposit are entirely insured or collateralized with securities.

Custodial Risk

For an investment, custodial risk is the risk that, in the event of failure of the counterparty, the City will not be able to recover the value of its investment. The City's Certificates of Deposit are entirely insured or collateralized by a trust department of a bank that does not hold the collateralized deposits.

Interest Rate Risk

The City has no formal policy on interest rate risk.

CITY OF MT. VERNON, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2013

NOTE D – RESTRICTED ASSETS

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

	<u>Restricted Cash and Investments</u>	<u>Restricted Fund Balance/ Net Position</u>
GENERAL FUND		
Court bonds	\$ 3	\$ -
Economic development checking	71,411	-
	<u>\$ 71,414</u>	<u>\$ -</u>
SPECIAL SALES TAX FUND		
Special sales tax	<u>\$ -</u>	<u>\$ 755,188</u>
DEBT SERVICE FUND		
Debt service	<u>\$ 187,007</u>	<u>\$ 342,029</u>
ELECTRIC FUND		
Customer deposits	<u>\$ 93,771</u>	<u>\$ -</u>
WATER FUND		
2011 Certificates of Participation		
Debt Service Reserve Fund	\$ 237,059	\$ 237,059
Lease Reserve Fund	42,043	42,043
2005 Certificates of Participation		
Debt Service Reserve Fund	363,137	363,137
	<u>\$ 642,239</u>	<u>\$ 642,239</u>
SEWER FUND		
2008 Waterworks and Sewerage System Bonds		
Principal and Interest Fund	\$ 110,649	\$ 110,649
Debt Service Reserve Fund	176,000	176,000
Debt Service Fund	28,646	28,646
	<u>\$ 315,295</u>	<u>\$ 315,295</u>

CITY OF MT. VERNON, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2013

NOTE E – ACCOUNTS RECEIVABLE

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

	<u>Accounts Receivable</u>	<u>Allowance</u>	<u>Net Accounts Receivable</u>
UTILITIES RECEIVABLE			
Enterprise Funds			
Electric Fund	\$ 923,391	\$ (59,909)	\$ 863,482
Water Fund	94,533	(5,706)	88,827
Sewer Fund	104,797	(5,706)	99,091
	<u>\$ 1,122,721</u>	<u>\$ (71,321)</u>	<u>\$ 1,051,400</u>

NOTE F – LONG-TERM LIABILITIES – GOVERNMENTAL ACTIVITIES

Long-term liabilities for governmental activities at December 31, 2013, consists of the 1995 General Obligation Industrial Bonds, compensated absences, and net pension obligation payable.

1995 General Obligation Industrial Bonds

In 1995, the City issued \$2,200,000 in General Obligation Industrial Bonds. The bonds bear interest at 4.60% to 6.40%. Interest payments are due semi-annually on June 1 and December 1 of each year with annual principal payments due June 1 of each year. The annual debt service requirements to amortize the principal on the 1995 General Obligation Industrial Bonds outstanding at December 31, 2013, are as follows:

<u>Year Ended December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 155,000	\$ 29,600	\$ 184,600
2015	385,000	12,320	397,320
	<u>\$ 540,000</u>	<u>\$ 41,920</u>	<u>\$ 581,920</u>

CITY OF MT. VERNON, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2013

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

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

	Balance December 31, 2012	Additions	Retirements	Balance December 31, 2013
1995 General Obligation Industrial Bonds	\$ 685,000	\$ -	\$ 145,000	\$ 540,000
Compensated Absences	101,228	-	7,431	93,797
Net pension obligation payable	8,178	-	67	8,111
	<u>\$ 794,406</u>	<u>\$ -</u>	<u>\$ 152,498</u>	<u>\$ 641,908</u>

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

The business-type activities long-term debt at December 31, 2013, consists of the 2008 Combined Waterworks and Sewerage System revenue bonds, the 2005, 2008, and 2011 Certificates of Participation, and compensated absences.

Water Fund

2005 Refunding Certificates of Participation

During 2005, the City issued \$3,835,000 in Refunding Certificates of Participation to advance refund the Series 2002 Certificates of Participation. The Series 2005 certificates bear interest at 4.19%. Interest payments are due in semi-annual installments on March 1 and September 1 of each year. The annual debt service requirements to amortize the principal on the 2005 Certificates of Participation outstanding at December 31, 2013, are as follows:

CITY OF MT. VERNON, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2013

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

Year Ended December 31,	Principal	Interest	Total
2014	\$ 130,000	\$ 136,384	\$ 266,384
2015	230,000	128,843	358,843
2016	340,000	116,901	456,901
2017	360,000	102,236	462,236
2018	375,000	86,838	461,838
2019	395,000	70,706	465,706
2020	415,000	53,736	468,736
2021	430,000	36,035	466,035
2022	645,000	13,513	658,513
	<u>\$ 3,320,000</u>	<u>\$ 745,192</u>	<u>\$ 4,065,192</u>

2011 Refunding Certificates of Participation

During 2011, the City issued \$2,370,000 in Refunding Certificates of Participation to advance refund the Series 2003 Certificates of Participation. The 2011 certificates bear interest at 1.25% to 4.25%. Interest payments are due in semi-annual installments on February 1 and August 1 of each year with annual principal payments due August 1 of each year. The annual debt service requirements to amortize the principal on the 2011 Certificates of Participation outstanding at December 31, 2013, are as follows:

Year Ended December 31,	Principal	Interest	Total
2014	\$ 20,000	\$ 82,335	\$ 102,335
2015	10,000	81,795	91,795
2016	95,000	81,525	176,525
2017	95,000	78,960	173,960
2018	100,000	76,110	176,110
2019	95,000	72,910	167,910
2020	105,000	69,680	174,680
2021	100,000	65,900	165,900
2022	595,000	62,050	657,050
2023	900,000	38,250	938,250
	<u>\$ 2,115,000</u>	<u>\$ 709,515</u>	<u>\$ 2,824,515</u>

CITY OF MT. VERNON, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2013

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

Electric Fund

2008 Certificates of Participation

During 2008, the City issued \$1,645,000 in Certificates of Participation. The certificates bear interest at 4.63%. Interest payments are due in semi-annual installments on May 1 and November 1 of each year with annual principal payments due May 1 of each year. The annual debt service requirements to amortize the principal on the 2008 Certificates of Participation outstanding at December 31, 2013, are as follows:

Year Ended December 31,	Principal	Interest	Total
2014	\$ 65,000	\$ 61,695	\$ 126,695
2015	70,000	58,569	128,569
2016	70,000	55,329	125,329
2017	75,000	51,972	126,972
2018	80,000	48,383	128,383
2019	80,000	44,680	124,680
2020	85,000	40,861	125,861
2021	90,000	36,808	126,808
2022	95,000	32,525	127,525
2023	100,000	28,011	128,011
2024	100,000	23,381	123,381
2025	105,000	18,636	123,636
2026	110,000	13,658	123,658
2027	115,000	8,450	123,450
2028	125,000	2,894	127,894
	<u>\$ 1,365,000</u>	<u>\$ 525,852</u>	<u>\$ 1,890,852</u>

CITY OF MT. VERNON, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2013

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

Sewer Fund

2008 Combined Waterworks and Sewerage System Revenue Bonds

During 2008, the City issued \$5,715,000 in Combined Waterworks and Sewerage System Revenue Bonds. The bonds bear interest at 4.00% to 5.75%. Interest payments are due semi-annually on July 1 and January 1 of each year with principal payments due January 1 of each year. Annual debt service requirements to amortize the principal on the 2008 revenue bonds outstanding at December 31, 2013, are as follows:

<u>Year Ended December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 95,000	\$ 290,669	\$ 385,669
2015	185,000	284,488	469,488
2016	325,000	272,606	597,606
2017	325,000	256,763	581,763
2018	335,000	240,263	575,263
2019	350,000	222,700	572,700
2020	345,000	204,672	549,672
2021	350,000	186,469	536,469
2022	360,000	167,206	527,206
2023	370,000	147,131	517,131
2024	375,000	126,456	501,456
2025	385,000	105,128	490,128
2026	395,000	82,944	477,944
2027	405,000	59,944	464,944
2028	415,000	36,369	451,369
2029	425,000	12,219	437,219
	<u>\$ 5,440,000</u>	<u>\$ 2,696,027</u>	<u>\$ 8,136,027</u>

CITY OF MT. VERNON, MISSOURI
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

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

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

	Balance December 31, 2012	Additions	Retirements	Balance December 31, 2013
ELECTRIC FUND				
Compensated Absences	\$ 10,672	\$ -	\$ 2,357	\$ 8,315
Certificates of Participation				
Series 2008	<u>1,425,000</u>	<u>-</u>	<u>60,000</u>	<u>1,365,000</u>
	1,435,672	-	62,357	1,373,315
SEWER FUND				
Revenue Bonds				
Series 2008	<u>5,535,000</u>	<u>-</u>	<u>95,000</u>	<u>5,440,000</u>
	5,535,000	-	95,000	5,440,000
Unamortized bond discount on 2008 issue	<u>(41,459)</u>	<u>-</u>	<u>(2,675)</u>	<u>(38,784)</u>
	5,493,541	-	92,325	5,401,216
WATER FUND				
Compensated Absences	8,036	4,386	-	12,422
Certificates of Participation				
Series 2005	3,450,000	-	130,000	3,320,000
Series 2011	<u>2,230,000</u>	<u>-</u>	<u>115,000</u>	<u>2,115,000</u>
	5,688,036	4,386	245,000	5,447,422
TOTAL	<u><u>\$ 12,617,249</u></u>	<u><u>\$ 4,386</u></u>	<u><u>\$ 399,682</u></u>	<u><u>\$ 12,221,953</u></u>

CITY OF MT. VERNON, MISSOURI
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

NOTE H – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2013, was as follows:

	Balance December 31, 2012	Additions	Deletions	Balance December 31, 2013
GOVERNMENTAL ACTIVITIES				
Non-depreciable Capital Assets				
Land	\$ 713,965	\$ 507,996	\$ -	\$ 1,221,961
Depreciable Capital Assets				
Land improvements	231,081	\$ -	\$ -	231,081
Building and improvements	1,800,757	12,246	-	1,813,003
Major moveable equipment	1,236,946	97,558	-	1,334,504
Infrastructure	33,831,932	144,760	-	33,976,692
Total Depreciable Capital Assets	37,100,716	\$ 254,564	\$ -	37,355,280
Less Accumulated Depreciation				
Land improvements	125,003	\$ 11,554	\$ -	136,557
Building and improvements	319,052	34,556	-	353,608
Major moveable equipment	968,754	59,999	-	1,028,753
Infrastructure	24,167,582	684,540	-	24,852,122
Total Accumulated Depreciation	25,580,391	\$ 790,649	\$ -	26,371,040
Total Depreciable Capital Assets, net	11,520,325			10,984,240
Total Governmental Activities Capital Assets, net	\$ 12,234,290			\$ 12,206,201

Depreciation expense was charged to functions as follows:

Administrative	\$ 7,366
Police	20,965
Fire	15,322
Parks	18,899
Street	675,380
Transportation	5,609
Airport	9,473
Golf	7,585
Community center	30,050
	<u>\$ 790,649</u>

CITY OF MT. VERNON, MISSOURI
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

NOTE H – CAPITAL ASSETS (continued)

	Balance December 31, 2012	Additions	Deletions	Balance December 31, 2013
BUSINESS-TYPE ACTIVITIES				
Sewer Fund				
Non-Depreciable Capital Assets				
Land	\$ 53,808	\$ -	\$ -	\$ 53,808
Construction in Progress	-	4,036	-	4,036
	<u>53,808</u>	<u>\$ 4,036</u>	<u>\$ -</u>	<u>57,844</u>
Depreciable Capital Assets				
Sewer plant	14,968,502	\$ 24,759	\$ -	14,993,261
Less Accumulated Depreciation				
Sewer plant	<u>6,705,358</u>	<u>\$ 326,974</u>	<u>\$ -</u>	<u>7,032,332</u>
Depreciable Capital Assets, net	8,263,144			7,960,929
Electric Fund				
Non-Depreciable Capital Assets				
Land	145,617	\$ -	\$ -	145,617
Depreciable Capital Assets:				
Electric plant	6,673,444	\$ 74,688	\$ -	6,748,132
Less Accumulated Depreciation				
Electric plant	<u>2,395,047</u>	<u>\$ 240,399</u>	<u>\$ -</u>	<u>2,635,446</u>
Depreciable Capital Assets, net	4,278,397			4,112,686
Water Fund				
Depreciable Capital Assets:				
Water plant	5,855,003	\$ 50,948	\$ -	5,905,951
Less Accumulated Depreciation				
Water plant	<u>1,868,054</u>	<u>\$ 169,065</u>	<u>\$ -</u>	<u>2,037,119</u>
Depreciable Capital Assets, net	<u>3,986,949</u>			<u>3,868,832</u>
Total Capital Assets - Business-Type Activities, net	<u>\$ 16,727,915</u>			<u>\$ 16,145,908</u>

NOTE I – EMPLOYEE PENSION PLAN

Plan Description

The City of Mt. Vernon participates in the Missouri Local Government Employees Retirement System (LAGERS), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for local government entities in Missouri. LAGERS is a defined benefit pension plan which provides retirement, disability, and death benefits to plan members and beneficiaries.

LAGERS was created and is governed by statute, section RSMo. 70.600 - 70.755. As such, it is the system's responsibility to administer the law in accordance with the expressed intent of the General Assembly. The plan is qualified under the Internal Revenue Code Section 401(a) and it is tax exempt.

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

Funding Status

Full-time employees of the City of Mt. Vernon do not contribute to the pension plan. The June 30th statutorily required contribution rates are 11.7% (General) and 11.2% (Police) of annual covered payroll. The contribution requirements of plan members are determined by the governing body of the political subdivision. The contribution provisions of the political subdivision are established by state statute.

Annual Pension Cost (APC) and Net Pension Obligation (NPO)

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

Annual required contribution	\$ 123,567
Interest on net pension obligation	593
Adjustment to annual required contribution	(660)
Annual pension cost	<u>123,500</u>
Actual contributions	<u>123,567</u>
Decrease in NPO	(67)
NPO beginning of period	<u>8,178</u>
NPO end of period	<u><u>\$ 8,111</u></u>

CITY OF MT. VERNON, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2013

NOTE I – EMPLOYEE PENSION PLAN (continued)

The annual required contribution (ARC) was determined as part of the February 28, 2011, and February 29, 2012, annual actuarial valuation using the entry age actuarial cost method. The actuarial assumptions as of February 28, 2013, included: (a) a rate of return on the investment of present and future assets of 7.25% per year, compounded annually, (b) projected salary increases of 3.5% per year, compounded annually, attributable to inflation, (c) additional projected salary increases ranging from 0.0% to 6.0% per year, depending on age and division, attributable to seniority/merit, (d) pre-retirement mortality based on 75% of the RP-2000 Combined Healthy table set back 0 years for men and 0 years for women, and (e) post-retirement mortality based on 105% of the 1994 Group Annuity Mortality table set back 0 years for men and 0 years for women. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The amortization period as of February 28, 2011, was 17 years for the General division and 30 years for the Police division. The amortization period as of February 29, 2012, was 17 years for the General division and 16 years for the Police division.

Three-Year Trend Information

Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2011	\$ 121,951	93.4%	\$ 8,049
2012	119,332	99.9%	8,178
2013	123,500	100.1%	8,111

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

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Entry Age Actuarial Accrued Liability	(b-a) Unfunded Accrued Liability (UAL)	(a/b) Funded Ratio	(c) Annual Covered Payroll	[(b-a)/c] UAL as a Percentage of Covered Payroll
2/28/2013	\$ 1,706,935	\$ 1,909,413	\$ 202,478	89%	\$ 1,103,725	18%

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

NOTE J – RISK MANAGEMENT

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

NOTE K – NOTE RECEIVABLE ON INDUSTRIAL BONDS AND PROPERTY SALE

In 1995, the City issued general obligation industrial bonds in the amount of \$2,200,000. The proceeds were loaned to Reyco Industries, Inc. for industrial development in exchange for a note receivable being held in a trust administered by the Bank of New York. The trust receives payments on the note from Reyco Industries, Inc. and then disburses the bond payments. \$545,000 has been recorded in the Debt Service Fund for the balance remaining on the note receivable.

In 2006, the City sold an industrial property and owner-financed the purchase price of \$128,000. The City will earn 5.75% on this note receivable. At December 31, 2013, \$72,093 has been recorded in the Debt Service Fund for the balance remaining on the note receivable.

NOTE L – CLAIMS AND ADJUSTMENTS

The City participates in a number of federal and state programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants are subject to audit by the appropriate grantor government. If expenditures are disallowed due to noncompliance with grant program regulation, the City may be required to reimburse the grantor government. As of December 31, 2013, expenditures have not been audited by grantor governments, but the City believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on any of the individual government funds or the overall financial position of the City.

CITY OF MT. VERNON, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2013

NOTE M – PLEDGED REVENUES

Sewer Fund

The City has pledged future sewer customer revenues to repay the 2008 Combined Waterworks and Sewerage Bonds issued to improve and expand the sewer system. The bonds are payable solely from sewer customer net revenues and are payable through 2029. Net revenues are revenues of the system less expenses of the system with the exception of depreciation. The total principal and interest remaining to be paid on the bonds is \$8,136,027. Principal and interest paid for the current year and total customer net revenues were \$387,960 and \$391,688, respectively.

NOTE N – INTERFUND TRANSFERS

Transfers between funds of the City for the year ended December 31, 2013, were as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 580,587	\$ -
Special Sales Tax Fund	-	292,800
Industrial Development Fund	500,945	-
Debt Service Fund	-	4,300
Electric Fund	-	1,077,232
Water Fund	292,800	-
	<u>\$ 1,374,332</u>	<u>\$ 1,374,332</u>

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

NOTE O – COMMITMENT

At December 31, 2013, the City had the following commitment:

- Anderson Engineering, Inc. in the amount of \$33,766 for services related to the Hickory Street Improvement Project.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF MT. VERNON, MISSOURI
 SCHEDULE OF FUNDING PROGRESS
 Year Ended December 31, 2013

Missouri Local Government Employees Retirement System (LAGERS)

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Entry Age Actuarial Accrued Liability	(b-a) Unfunded Accrued Liability (UAL)	(a/b) Funded Ratio	(c) Annual Covered Payroll	[(b-a)/c] UAL as a Percentage of Covered Payroll
2/28/2011	\$ 1,313,161	\$ 1,647,982	\$ 334,821	80%	\$ 1,039,397	32%
2/29/2012	1,517,762	1,796,944	279,182	84%	979,933	28%
2/28/2013	1,706,935	1,909,413	202,478	89%	1,103,725	18%

Note: The above assets and actuarial accrued liability do not include the assets and present value of benefits associated with the Benefit Reserve Fund and the Casualty Reserve Fund. The actuarial assumptions were changed in conjunction with the February 28, 2011, annual actuarial valuations. For a complete description of the actuarial assumptions used in the annual valuations, please contact the LAGERS office in Jefferson City.

CITY OF MT. VERNON, MISSOURI
 BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
 Year Ended December 31, 2013

	Original Budget	Final Budget	Actual	Variance With Final Budget
REVENUES				
Taxes				
City sales tax	\$ 680,000	\$ 785,994	\$ 785,994	\$ -
Motor vehicle tax	152,000	165,973	165,973	-
Utility franchise tax	87,000	91,609	91,609	-
Other taxes	26,000	27,881	27,881	-
	<u>945,000</u>	<u>1,071,457</u>	<u>1,071,457</u>	<u>-</u>
Licenses and Permits				
Occupational licenses	5,700	6,166	6,166	-
Building permits	6,000	6,471	6,471	-
	<u>11,700</u>	<u>12,637</u>	<u>12,637</u>	<u>-</u>
Intergovernmental Revenues				
Grants	50,000	92,474	92,474	-
Charges for Services				
Taxi	9,000	11,311	11,311	-
Animal control	300	849	849	-
Pool	22,000	16,915	16,915	-
Park	4,200	5,975	5,975	-
Golf fees	115,000	98,161	98,161	-
Community center	12,000	21,565	21,565	-
Cemetery	500	375	375	-
	<u>163,000</u>	<u>155,151</u>	<u>155,151</u>	<u>-</u>
Fines and forfeitures				
City court fines	34,000	35,245	35,245	-
Miscellaneous				
Rent income	13,140	13,645	13,645	-
Interest	-	405	405	-
Donations	6,000	7,000	7,000	-
Other	1,700	12,611	12,611	-
	<u>20,840</u>	<u>33,661</u>	<u>33,661</u>	<u>-</u>
TOTAL REVENUES	<u>1,224,540</u>	<u>1,400,625</u>	<u>1,400,625</u>	<u>-</u>

CITY OF MT. VERNON, MISSOURI
 BUDGETARY COMPARISON SCHEDULE – GENERAL FUND (continued)
 Year Ended December 31, 2013

	Original Budget	Final Budget	Actual	Variance With Final Budget
EXPENDITURES				
Current				
Administrative	153,936	117,711	117,711	-
Police	654,664	649,263	649,263	-
Municipal court	40,895	20,838	20,838	-
Fire	70,672	133,881	133,881	-
Animal control	12,321	11,435	11,435	-
Parks	319,103	239,861	239,861	-
Community center	66,157	72,518	72,518	-
Street	402,790	291,376	291,376	-
Planning and zoning	60,820	58,206	58,206	-
Transportation	92,376	85,703	85,703	-
Airport	10,509	7,486	7,486	-
Golf	266,463	238,504	238,504	-
Economic development	17,490	31,241	31,241	-
TOTAL EXPENDITURES	<u>2,168,196</u>	<u>1,958,023</u>	<u>1,958,023</u>	<u>-</u>
(DEFICIT) OF REVENUES OVER EXPENDITURES	(943,656)	(557,398)	(557,398)	-
OTHER FINANCING SOURCES				
Operating transfers in	<u>955,000</u>	<u>580,587</u>	<u>580,587</u>	<u>-</u>
TOTAL OTHER FINANCING SOURCES	<u>955,000</u>	<u>580,587</u>	<u>580,587</u>	<u>-</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES	11,344	23,189	23,189	-
FUND BALANCE, January 1	<u>298,470</u>	<u>298,470</u>	<u>298,470</u>	<u>-</u>
FUND BALANCE, December 31	<u><u>\$ 309,814</u></u>	<u><u>\$ 321,659</u></u>	<u><u>\$ 321,659</u></u>	<u><u>\$ -</u></u>

CITY OF MT. VERNON, MISSOURI
 BUDGETARY COMPARISON SCHEDULE – SPECIAL SALES TAX FUND
 Year Ended December 31, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
REVENUES				
Taxes				
City sales tax	\$ 254,000	\$ 265,646	\$ 265,646	\$ -
Miscellaneous				
Interest	2,100	2,296	2,296	-
TOTAL REVENUES	<u>256,100</u>	<u>267,942</u>	<u>267,942</u>	<u>-</u>
OTHER FINANCING (USES)				
Operating transfers (out)	<u>(330,637)</u>	<u>(292,800)</u>	<u>(292,800)</u>	<u>-</u>
(DEFICIT) OF REVENUES OVER OTHER FINANCING (USES)	(74,537)	(24,858)	(24,858)	-
FUND BALANCE, January 1	<u>780,046</u>	<u>780,046</u>	<u>780,046</u>	<u>-</u>
FUND BALANCE, December 31	<u><u>\$ 705,509</u></u>	<u><u>\$ 755,188</u></u>	<u><u>\$ 755,188</u></u>	<u><u>\$ -</u></u>

CITY OF MT. VERNON, MISSOURI
 BUDGETARY COMPARISON SCHEDULE – INDUSTRIAL DEVELOPMENT FUND
 Year Ended December 31, 2013

	Original Budget	Final Budget	Actual	Variance With Final Budget
REVENUES				
Miscellaneous				
Rents	\$ 6,000	\$ -	\$ -	\$ -
Interest	-	325	325	-
TOTAL REVENUES	6,000	325	325	-
EXPENDITURES				
Current				
Industrial development	-	507,997	507,997	-
TOTAL EXPENDITURES	-	507,997	507,997	-
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	6,000	(507,672)	(507,672)	-
OTHER FINANCING SOURCES				
Operating transfers in	-	500,945	500,945	-
EXCESS (DEFICIT) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES	6,000	(6,727)	(6,727)	-
FUND BALANCE, January 1	205,939	205,939	205,939	-
FUND BALANCE, December 31	\$ 211,939	\$ 199,212	\$ 199,212	\$ -

CITY OF MT. VERNON, MISSOURI
NOTE TO BUDGETARY COMPARISON SCHEDULES
December 31, 2013

Budgets and Budgetary Accounting

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

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

OTHER FINANCIAL INFORMATION



CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

**INDEPENDENT AUDITORS' REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities, and each major fund of the City of Mt. Vernon, Missouri, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City of Mt. Vernon, Missouri's basic financial statements, and have issued our report thereon, dated March 18, 2014.

Internal Control over Financial Reporting

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

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and responses to be a material weakness. It is identified as item 13-1.

Compliance and Other Matters

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

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

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

We noted certain other matters that we have reported to management of the City in a separate letter dated March 18, 2014.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Mt. Vernon, Missouri's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Mt. Vernon, Missouri's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPM CPAs, PC

KPM CPAs, PC
March 18, 2014

CITY OF MT. VERNON, MISSOURI
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended December 31, 2013

13-1 Segregation of duties

Condition: Because of a limited number of available personnel, it is not always possible to adequately segregate certain incompatible duties so that no one employee has access to both physical assets and the related accounting records, or to all phases of a transaction.

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

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

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

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