

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

FINANCIAL STATEMENT AND  
FEDERAL SINGLE AUDIT REPORT  
OF

CITY OF MOUNT VERNON  
POSEY COUNTY, INDIANA

January 1, 2012 to December 31, 2012



**FILED**  
10/24/2013



## TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials .....	2
Independent Auditor's Report .....	3-5
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statement Performed in Accordance With Government Auditing Standards .....	6-7
Financial Statement:	
Statement of Receipts, Disbursements, and Cash and Investment Balances - Regulatory Basis .....	10
Notes to Financial Statement .....	11-15
Supplementary Information - Unaudited:	
Combining Schedule of Receipts, Disbursements, and Cash and Investment Balances - Regulatory Basis .....	18-26
Schedule of Payables and Receivables .....	27
Schedule of Leases and Debt .....	28
Schedule of Capital Assets .....	29
Audit Results and Comments:	
Accountable Items .....	30
Internal Controls Over the Preparation of the Schedule of Expenditures of Federal Awards .....	30
Supplemental Audit of Federal Awards:	
Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance .....	32-33
Schedule of Expenditures of Federal Awards .....	36
Note to Schedule of Expenditures of Federal Awards .....	37
Schedule of Findings and Questioned Costs .....	38-40
Auditee Prepared Schedule:	
Corrective Action Plan .....	41
Exit Conference .....	42

### SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Denise Dike Cristi L. Sitzman	01-01-12 to 09-14-12 09-15-12 to 12-31-15
Mayor	John Tucker	01-01-12 to 12-31-15
President of the Board of Public Works	John Tucker	01-01-12 to 12-31-15
President of the Common Council	Bill Curtis	01-01-12 to 12-31-13
President of Water Utility Board	Bill Curtis	01-01-12 to 12-31-13
Superintendent of Water Utility	Chuck Gray	01-01-12 to 01-01-13
Superintendent of Wastewater Utility Plant Operations Pre-Treatment	Rodney Givens Danny Moss Dennis Givens	01-01-12 to 12-31-13 01-01-12 to 12-31-13 01-01-12 to 12-31-13
Utility Office Manager	Deann Blackburn	01-01-12 to 12-31-13



## INDEPENDENT AUDITOR'S REPORT

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

### ***Report on the Financial Statement***

We have audited the accompanying financial statement of the City of Mount Vernon (City), which comprises the financial position and results of operations for the year ended December 31, 2012, and the related notes to the financial statement.

### ***Management's Responsibility for the Financial Statement***

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the financial reporting provisions of the Indiana State Board of Accounts as allowed by state statute (IC 5-11-1-6). Management is responsible for and has determined that the regulatory basis of accounting, as established by the Indiana State Board of Accounts, is an acceptable basis of presentation. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on this financial statement 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 statement is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, 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 statement 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 statement.

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

INDEPENDENT AUDITOR'S REPORT  
(Continued)

***Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles***

As discussed in Note 1 of the financial statement, the City prepares its financial statement on the prescribed basis of accounting that demonstrates compliance with the reporting requirements established by the Indiana State Board of Accounts as allowed by state statute (IC 5-11-1-6), which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

***Adverse Opinion on U.S. Generally Accepted Accounting Principles***

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position and results of operations of the City for the year ended December 31, 2012.

***Opinion on Regulatory Basis of Accounting***

In our opinion, the financial statement referred to above presents fairly, in all material respects, the financial position and results of operations of the City for the year ended December 31, 2012, in accordance with the financial reporting provisions of the Indiana State Board of Accounts described in Note 1.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued a report dated September 18, 2013, 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, 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 the City's internal control over financial reporting and compliance.

***Accompanying Information***

*Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the City's financial statement. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the *U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statement. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. The information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the financial statement taken as a whole.

INDEPENDENT AUDITOR'S REPORT  
(Continued)

Our audit was conducted for the purpose of forming an opinion on the City's financial statement. The Combining Schedule of Receipts, Disbursements, and Cash and Investment Balances - Regulatory Basis, Schedule of Payables and Receivables, Schedule of Leases and Debt, and Schedule of Capital Assets, as listed in the Table of Contents, are presented for additional analysis and are not required parts of the financial statement. They have not been subjected to the auditing procedures applied by us in the audit of the financial statement and, accordingly, we express no opinion on them.



Bruce Hartman  
State Examiner

September 18, 2013



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

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 statement of the City of Mount Vernon (City), which comprises the financial position and results of operations for the year ended December 31, 2012, and the related notes to the financial statement, and have issued our report thereon dated September 18, 2013, wherein we noted the City followed accounting practices the Indiana State Board of Accounts prescribes rather than accounting principles generally accepted in the United States of America.

***Internal Control Over Financial Reporting***

In planning and performing our audit of the financial statement, we considered the City'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 opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of the internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control 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 Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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 entity's financial statement will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as item 2012-1 to be material weaknesses.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS  
(Continued)

***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the City's financial statement is 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2012-1.

***City of Mount Vernon's Response to Findings***

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

***Purpose of This Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City'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's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Bruce Hartman  
State Examiner

September 18, 2013

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## FINANCIAL STATEMENT

The financial statement and accompanying notes were approved by management of the City. The financial statement and notes are presented as intended by the City.

CITY OF MOUNT VERNON  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES -  
REGULATORY BASIS  
For The Year Ended December 31, 2012

Fund	Cash and Investments 01-01-12	Receipts	Disbursements	Cash and Investments 12-31-12
General	\$ 899,269	\$ 3,712,989	\$ 3,776,449	\$ 835,809
Motor Vehicle Highway	273,415	715,847	692,420	296,842
Local Road And Street	20,000	26,391	20,866	25,525
Park Nonreverting Operating	38,492	23,925	29,614	32,803
Abandoned Vehicle	2,501	-	-	2,501
Law Enforcement Continuing Ed	13,134	6,999	8,577	11,556
Parks And Recreation	207,312	672,677	692,435	187,554
Rainy Day	137,623	518,887	563,287	93,223
Cumulative Capital Development	35,734	56,845	65,000	27,579
Cumulative Capital Improvement	44,230	25,800	17,000	53,030
Police Pension	205,627	128,539	102,397	231,769
Fire Pension	286,797	135,712	114,218	308,291
Operation Pull-Over	-	3,888	3,888	-
West School Storm Water Project	-	487,231	481,274	5,957
EDIT	509,002	1,052,436	779,973	781,465
Donations	78,551	34,528	100,918	12,161
Economic Development Commission	11,547	40,000	371	51,176
State Gaming	64,635	39,613	31,158	73,090
EWSF	9,803	1	-	9,804
MVH II	23,183	10,371	20,000	13,554
Project Fun	514	1,272	1,757	29
BB Pool Lights	9	-	-	9
Downtown Plan	481	-	-	481
Crow Population	48	-	48	-
COIT	544,773	942,617	853,246	634,144
Insurance	11,605	142,784	144,878	9,511
Tax Incremental Financing	113,458	231,326	229,121	115,663
Payroll	28,327	3,317,786	3,316,357	29,756
Wastewater 2011 State Revolving Loan	-	4,329,640	4,329,640	-
Wastewater Operating & Maintenance	695,477	1,412,147	997,782	1,109,842
Wastewater Consumer Meter Deposit	46,539	10,719	11,376	45,882
Wastewater Cash Clearance	-	2,174,584	2,174,584	-
Wastewater Improvement	6,702	-	-	6,702
Wastewater Petty Cash	100	200	-	300
Wastewater Trash Transfer	-	279,363	279,363	-
Wastewater Pre Treatment	81,308	73,659	25,529	129,438
Wastewater Debt Service Reserve	471,100	60,510	-	531,610
Wastewater Sinking	574,251	692,310	512,425	754,136
Wastewater 2009 State Revolving Loan	-	4,425,198	4,425,198	-
Water Operating & Maintenance	1,368,979	2,403,721	1,886,861	1,885,839
Water ONB Escrow	154,558	178,680	178,691	154,547
Water State Revolving Fund	153,611	66,540	220,151	-
Water BAN Bond and Interst	20,975	56,265	77,240	-
Water BAN Construction	140,027	-	140,027	-
Water Debt Service Reserve	-	849,463	47	849,416
Water 2012 Revenue Bond Fund	-	14,652,210	13,725,981	926,229
Water Bond and Interest	-	955,133	892,473	62,660
Water 1997 Bond and Interest	47,098	120,450	167,548	-
Water Consumer Meter Deposit	92,256	16,771	19,128	89,899
Water Revenue	-	3,659,648	3,659,648	-
Water Debt Service Reserve	769,388	-	769,388	-
Water Improvement	202,693	-	77,251	125,442
Water Petty Cash	200	-	-	200
Totals	<u>\$ 8,385,332</u>	<u>\$ 48,745,675</u>	<u>\$ 46,615,583</u>	<u>\$ 10,515,424</u>

The notes to the financial statement are an integral part of this statement.

CITY OF MOUNT VERNON  
NOTES TO FINANCIAL STATEMENT

**Note 1. Summary of Significant Accounting Policies**

*A. Reporting Entity*

The City was established under the laws of the State of Indiana. The City operates under a Council-Mayor form of government and provides some or all of the following services: public safety (police and fire), highways and streets, health and social services, culture and recreation, public improvements, planning and zoning, general administrative services, water, wastewater, electric, gas, storm water, trash, aviation, and urban redevelopment and housing.

The accompanying financial statement presents the financial information for the City.

*B. Basis of Accounting*

The financial statement is reported on a regulatory basis of accounting prescribed by the State Board of Accounts in accordance with state statute (IC 5-11-1-6), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Receipts are recorded when received and disbursements are recorded when paid.

The regulatory basis of accounting differs from accounting principles generally accepted in the United States of America in that receipts are recognized when received in cash, rather than when earned, and disbursements are recognized when paid, rather than when a liability is incurred.

*C. Cash and Investments*

Investments are stated at cost. Any changes in fair value of the investments are reported as receipts in the year of the sale of the investment.

*D. Receipts*

Receipts are presented in the aggregate on the face of the financial statement. The aggregate receipts include the following sources:

Taxes which can include one or more of the following: property taxes, certified shares (local option tax), property tax replacement credit (local option tax), county option income tax, wheel tax, innkeepers tax, food and beverage tax, county economic development income tax, boat and trailer excise tax, county adjusted gross income tax, and other taxes that are set by the City.

Licenses and permits which include amounts received from businesses, occupations, or nonbusinesses that must be licensed before doing business within the government's jurisdiction or permits levied according to the benefits presumably conferred by the permit. Examples of licenses and permits include: peddler licenses, dog tax licenses, auctioneer license, building and planning permits, demolition permits, electrical permits, sign permits, and gun permits.

Intergovernmental receipts which include receipts from other governments in the form of operating grants, entitlements, or payments in lieu of taxes. Examples of this type of receipts include, but are not limited to: federal grants, state grants, cigarette tax distributions received from the state, motor vehicle highway distribution received from the state,

CITY OF MOUNT VERNON  
NOTES TO FINANCIAL STATEMENT  
(Continued)

local road and street distribution received from the state, financial institution tax received from the state, auto excise surtax received from the state, commercial vehicle excise tax received from the state, major moves distributions received from the state, and riverboat receipts received from the county.

Charges for services which can include, but are not limited to the following: planning commission charges, building department charges, copies of public records, copy machine charges, accident report copies, gun permit applications, 911 telephone services, recycling fees, dog pound fees, emergency medical service fees, park rental fees, swimming pool receipts, cable tv receipts, ordinance violations, fines and fees, bond forfeitures, court costs, and court receipts.

Fines and forfeits which include receipts derived from fines and penalties imposed for the commission of statutory offenses, violation of lawful administrative rules and regulations (fines), and for the neglect of official duty and monies derived from confiscating deposits held as performance guarantees (forfeitures).

Utility fees which are comprised mostly of charges for current services.

Other receipts which include amounts received from various sources which can include, but are not limited to the following: net proceeds from borrowings; interfund loan activity; transfers authorized by statute, ordinance, resolution or court order; internal service receipts; and fiduciary receipts.

*E. Disbursements*

Disbursements are presented in the aggregate on the face of the financial statement. The aggregate disbursements include the following uses:

Personal services include outflows for salaries, wages, and related employee benefits provided for all persons employed. In those units where sick leave, vacation leave, overtime compensation, and other such benefits are appropriated separately, such payments would also be included.

Supplies which include articles and commodities that are entirely consumed and materially altered when used and/or show rapid depreciation after use for a short period of time. Examples of supplies include office supplies, operating supplies, and repair and maintenance supplies.

Other services and charges which include, but are not limited to: professional services, communication and transportation, printing and advertising, insurance, utility services, repairs and maintenance, and rental charges.

Capital outlay which include all outflows for land, infrastructure, buildings, improvements, and machinery and equipment having an appreciable and calculable period of usefulness.

Utility operating expenses which include all outflows for operating the utilities.

Other disbursements which include, but are not limited to the following: interfund loan payments, loans made to other funds, internal service disbursements, and transfers out that are authorized by statute, ordinance, resolution, or court order.

CITY OF MOUNT VERNON  
NOTES TO FINANCIAL STATEMENT  
(Continued)

*F. Interfund Transfers*

The City may, from time to time, transfer money from one fund to another. These transfers, if any, are included as a part of the receipts and disbursements of the affected funds and as a part of total receipts and disbursements. The transfers are used for cash flow purposes as provided by various statutory provisions.

*G. Fund Accounting*

Separate funds are established, maintained, and reported by the City. Each fund is used to account for money received from and used for specific sources and uses as determined by various regulations. Restrictions on some funds are set by statute while other funds are internally restricted by the City. The money accounted for in a specific fund may only be available for use for certain, legally restricted purposes. Additionally, some funds are used to account for assets held by the City in a trustee capacity as an agent of individuals, private organizations, other funds, or other governmental units and therefore the funds cannot be used for any expenditures of the unit itself.

**Note 2. Budgets**

The operating budget is initially prepared and approved at the local level. The fiscal officer of the City submits a proposed operating budget to the governing board for the following calendar year. The budget is advertised as required by law. Prior to adopting the budget, the governing board conducts public hearings and obtains taxpayer comments. Prior to November 1, the governing board approves the budget for the next year. The budget for funds for which property taxes are levied or highway use taxes are received is subject to final approval by the Indiana Department of Local Government Finance.

**Note 3. Property Taxes**

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

**Note 4. Deposits and Investments**

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

State statutes authorize the City to invest in securities including, but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

CITY OF MOUNT VERNON  
NOTES TO FINANCIAL STATEMENT  
(Continued)

**Note 5. Risk Management**

The City may be exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents; and natural disasters.

These risks can be mitigated through the purchase of insurance, establishment of a self-insurance fund, and/or participation in a risk pool. The purchase of insurance transfers the risk to an independent third party. The establishment of a self-insurance fund allows the City to set aside money for claim settlements. The self-insurance fund would be included in the financial statement. The purpose of participation in a risk pool is to provide a medium for the funding and administration of the risks.

**Note 6. Pension Plans**

*A. 1925 Police Officers' Pension Plan*

*Plan Description*

The 1925 Police Officers' Pension Plan is a single-employer defined benefit pension plan. The plan is administered by the local pension board as authorized by state statute (IC 36-8-6). The plan provides retirement, disability, and death benefits to plan members and beneficiaries. The plan was established by the plan administrator, as provided by state statute. The plan administrator does not issue a publicly available financial report that includes financial statements and required supplementary information of the plan.

*Funding Policy*

The contribution requirements of plan members for the 1925 Police Officers' Pension Plan are established by state statute.

*On Behalf Payments*

The 1925 Police Officers' Pension Plan is funded by the State of Indiana through the Indiana Public Retirement System as provided under Indiana Code 5-10.3-11.

*B. 1937 Firefighters' Pension Plan*

*Plan Description*

The 1937 Firefighters' Pension Plan is a single-employer defined benefit pension plan. The plan is administered by the local pension board as authorized by state statute (IC 36-8-7). The plan provides retirement, disability, and death benefits to plan members and beneficiaries. The plan was established by the plan administrator, as provided by state statute. The plan administrator does not issue a publicly available financial report that includes financial statements and required supplementary information of the plan.

*Funding Policy*

The contribution requirements of plan members for the 1937 Firefighters' Pension Plan are established by state statute.

CITY OF MOUNT VERNON  
NOTES TO FINANCIAL STATEMENT  
(Continued)

*On Behalf Payments*

The 1937 Firefighters' Pension Plan is funded by the State of Indiana through the Indiana Public Retirement System as provided under Indiana Code 5-10.3-11.

C. *1977 Police Officers' and Firefighters' Pension and Disability Fund*

*Plan Description*

The 1977 Police Officers' and Firefighters' Pension and Disability Fund is a cost-sharing multiple-employer defined benefit pension plan administered by the Indiana Public Retirement System (INPRS) for all police officers and firefighters hired after April 30, 1977.

State statute (IC 36-8-8) regulates the operations of the system, including benefits, vesting, and requirements for contributions by employers and by employees. Covered employees may retire at age 52 with 20 years of service. An employee with 20 years of service may leave service, but will not receive benefits until reaching age 52. The plan also provides for death and disability benefits.

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

Indiana Public Retirement System  
1 North Capital Street, Suite 001  
Indianapolis, IN 46204  
Ph. (888) 526-1687

*Funding Policy*

The contribution requirements of plan members and the City are established by the Board of Trustees of INPRS.

D. The City also contributes to an additional pension plan unique to the City. Information regarding these plans may be obtained from the City.

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## SUPPLEMENTARY INFORMATION – UNAUDITED

For additional financial information, the City's Annual Report information can be found on the Gateway website: <https://gateway.ifionline.org/>.

Differences may be noted between the financial information presented in the financial statement contained in this report and the financial information presented in the Annual Report of the City which is referenced above. These differences, if any, are due to adjustments made to the financial information during the course of the audit. This is a common occurrence in any financial statement audit. The financial information presented in this report is audited information, and the accuracy of such information can be determined by reading the opinion given in the Independent Auditor's Report.

The supplementary information presented was approved by management of the City. It is presented as intended by the City.

CITY OF MOUNT VERNON  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For The Year Ended December 31, 2012

	General	Motor Vehicle Highway	Local Road And Street	Park Nonreverting Operating	Abandoned Vehicle	Law Enforcement Continuing Ed
Cash and investments - beginning	\$ 899,269	\$ 273,415	\$ 20,000	\$ 38,492	\$ 2,501	\$ 13,134
Receipts:						
Taxes	2,104,733	467,850	-	-	-	-
Licenses and permits	5,830	-	-	-	-	4,721
Intergovernmental	260,696	220,065	26,391	-	-	-
Charges for services	284,441	10,240	-	23,925	-	-
Fines and forfeits	-	-	-	-	-	1,833
Utility fees	-	-	-	-	-	-
Other receipts	1,057,289	17,692	-	-	-	445
Total receipts	<u>3,712,989</u>	<u>715,847</u>	<u>26,391</u>	<u>23,925</u>	<u>-</u>	<u>6,999</u>
Disbursements:						
Personal services	1,975,113	345,099	-	8,514	-	-
Supplies	195,598	103,270	-	15,398	-	6,904
Other services and charges	658,843	161,253	20,866	4,000	-	1,673
Capital outlay	38,013	32,798	-	-	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	908,882	50,000	-	1,702	-	-
Total disbursements	<u>3,776,449</u>	<u>692,420</u>	<u>20,866</u>	<u>29,614</u>	<u>-</u>	<u>8,577</u>
Excess (deficiency) of receipts over disbursements	<u>(63,460)</u>	<u>23,427</u>	<u>5,525</u>	<u>(5,689)</u>	<u>-</u>	<u>(1,578)</u>
Cash and investments - ending	<u>\$ 835,809</u>	<u>\$ 296,842</u>	<u>\$ 25,525</u>	<u>\$ 32,803</u>	<u>\$ 2,501</u>	<u>\$ 11,556</u>

CITY OF MOUNT VERNON  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For The Year Ended December 31, 2012  
 (Continued)

	Parks And Recreation	Rainy Day	Cumulative Capital Development	Cumulative Capital Improvement	Police Pension	Fire Pension
Cash and investments - beginning	\$ 207,312	\$ 137,623	\$ 35,734	\$ 44,230	\$ 205,627	\$ 286,797
Receipts:						
Taxes	466,551	-	50,753	-	125,493	104,336
Licenses and permits	-	-	-	-	-	-
Intergovernmental	19,322	16,348	6,092	17,736	3,046	31,376
Charges for services	59,584	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Other receipts	127,220	502,539	-	8,064	-	-
Total receipts	<u>672,677</u>	<u>518,887</u>	<u>56,845</u>	<u>25,800</u>	<u>128,539</u>	<u>135,712</u>
Disbursements:						
Personal services	405,747	-	-	-	102,330	114,173
Supplies	66,494	-	5,000	-	-	-
Other services and charges	114,278	31,669	-	-	67	45
Capital outlay	8,841	6,618	60,000	17,000	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	97,075	525,000	-	-	-	-
Total disbursements	<u>692,435</u>	<u>563,287</u>	<u>65,000</u>	<u>17,000</u>	<u>102,397</u>	<u>114,218</u>
Excess (deficiency) of receipts over disbursements	<u>(19,758)</u>	<u>(44,400)</u>	<u>(8,155)</u>	<u>8,800</u>	<u>26,142</u>	<u>21,494</u>
Cash and investments - ending	<u>\$ 187,554</u>	<u>\$ 93,223</u>	<u>\$ 27,579</u>	<u>\$ 53,030</u>	<u>\$ 231,769</u>	<u>\$ 308,291</u>

CITY OF MOUNT VERNON  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For The Year Ended December 31, 2012  
 (Continued)

	Operation Pull-Over	West School Storm Water Project	EDIT	Donations	Economic Development Commission	State Gaming
Cash and investments - beginning	\$ -	\$ -	\$ 509,002	\$ 78,551	\$ 11,547	\$ 64,635
Receipts:						
Taxes	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	3,888	487,231	802,436	-	-	39,613
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Other receipts	-	-	250,000	34,528	40,000	-
Total receipts	<u>3,888</u>	<u>487,231</u>	<u>1,052,436</u>	<u>34,528</u>	<u>40,000</u>	<u>39,613</u>
Disbursements:						
Personal services	-	-	-	-	-	-
Supplies	-	-	6,948	-	-	-
Other services and charges	-	-	112,963	-	-	31,158
Capital outlay	-	-	310,062	-	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	3,888	481,274	350,000	100,918	371	-
Total disbursements	<u>3,888</u>	<u>481,274</u>	<u>779,973</u>	<u>100,918</u>	<u>371</u>	<u>31,158</u>
Excess (deficiency) of receipts over disbursements	<u>-</u>	<u>5,957</u>	<u>272,463</u>	<u>(66,390)</u>	<u>39,629</u>	<u>8,455</u>
Cash and investments - ending	<u>\$ -</u>	<u>\$ 5,957</u>	<u>\$ 781,465</u>	<u>\$ 12,161</u>	<u>\$ 51,176</u>	<u>\$ 73,090</u>

CITY OF MOUNT VERNON  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For The Year Ended December 31, 2012  
 (Continued)

	EWSF	MVH II	Project Fun	BB Pool Lights	Downtown Plan	Crow Population
Cash and investments - beginning	\$ 9,803	\$ 23,183	\$ 514	\$ 9	\$ 481	\$ 48
Receipts:						
Taxes	-	10,371	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Other receipts	1	-	1,272	-	-	-
Total receipts	<u>1</u>	<u>10,371</u>	<u>1,272</u>	<u>-</u>	<u>-</u>	<u>-</u>
Disbursements:						
Personal services	-	-	-	-	-	-
Supplies	-	-	-	-	-	-
Other services and charges	-	20,000	-	-	-	-
Capital outlay	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	-	-	1,757	-	-	48
Total disbursements	<u>-</u>	<u>20,000</u>	<u>1,757</u>	<u>-</u>	<u>-</u>	<u>48</u>
Excess (deficiency) of receipts over disbursements	<u>1</u>	<u>(9,629)</u>	<u>(485)</u>	<u>-</u>	<u>-</u>	<u>(48)</u>
Cash and investments - ending	<u>\$ 9,804</u>	<u>\$ 13,554</u>	<u>\$ 29</u>	<u>\$ 9</u>	<u>\$ 481</u>	<u>\$ -</u>

CITY OF MOUNT VERNON  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For The Year Ended December 31, 2012  
 (Continued)

	COIT	Insurance	Tax Incremental Financing	Payroll	Wastewater 2011 State Revolving Loan	Wastewater Operating & Maintenance
Cash and investments - beginning	\$ 544,773	\$ 11,605	\$ 113,458	\$ 28,327	\$ -	\$ 695,477
Receipts:						
Taxes	-	-	231,326	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	572,617	-	-	-	-	-
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Other receipts	370,000	142,784	-	3,317,786	4,329,640	1,412,147
Total receipts	<u>942,617</u>	<u>142,784</u>	<u>231,326</u>	<u>3,317,786</u>	<u>4,329,640</u>	<u>1,412,147</u>
Disbursements:						
Personal services	254,470	-	-	-	-	-
Supplies	-	-	-	-	-	-
Other services and charges	298,776	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	300,000	144,878	229,121	3,316,357	4,329,640	997,782
Total disbursements	<u>853,246</u>	<u>144,878</u>	<u>229,121</u>	<u>3,316,357</u>	<u>4,329,640</u>	<u>997,782</u>
Excess (deficiency) of receipts over disbursements	<u>89,371</u>	<u>(2,094)</u>	<u>2,205</u>	<u>1,429</u>	<u>-</u>	<u>414,365</u>
Cash and investments - ending	<u>\$ 634,144</u>	<u>\$ 9,511</u>	<u>\$ 115,663</u>	<u>\$ 29,756</u>	<u>\$ -</u>	<u>\$ 1,109,842</u>

CITY OF MOUNT VERNON  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For The Year Ended December 31, 2012  
 (Continued)

	Wastewater Consumer Meter Deposit	Wastewater Cash Clearance	Wastewater Improvement	Wastewater Petty Cash	Wastewater Trash Transfer	Wastewater Pre Treatment
Cash and investments - beginning	\$ 46,539	\$ -	\$ 6,702	\$ 100	\$ -	\$ 81,308
Receipts:						
Taxes	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Other receipts	10,719	2,174,584	-	200	279,363	73,659
Total receipts	<u>10,719</u>	<u>2,174,584</u>	<u>-</u>	<u>200</u>	<u>279,363</u>	<u>73,659</u>
Disbursements:						
Personal services	-	-	-	-	-	-
Supplies	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	11,376	2,174,584	-	-	279,363	25,529
Total disbursements	<u>11,376</u>	<u>2,174,584</u>	<u>-</u>	<u>-</u>	<u>279,363</u>	<u>25,529</u>
Excess (deficiency) of receipts over disbursements	<u>(657)</u>	<u>-</u>	<u>-</u>	<u>200</u>	<u>-</u>	<u>48,130</u>
Cash and investments - ending	<u>\$ 45,882</u>	<u>\$ -</u>	<u>\$ 6,702</u>	<u>\$ 300</u>	<u>\$ -</u>	<u>\$ 129,438</u>

CITY OF MOUNT VERNON  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For The Year Ended December 31, 2012  
 (Continued)

	Wastewater Debt Service Reserve	Wastewater Sinking	Wastewater 2009 State Revolving Loan	Water Operating & Maintenance	Water ONB Escrow	Water State Revolving Fund
Cash and investments - beginning	\$ 471,100	\$ 574,251	\$ -	\$ 1,368,979	\$ 154,558	\$ 153,611
Receipts:						
Taxes	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	2,403,721	-	-
Other receipts	60,510	692,310	4,425,198	-	178,680	66,540
Total receipts	<u>60,510</u>	<u>692,310</u>	<u>4,425,198</u>	<u>2,403,721</u>	<u>178,680</u>	<u>66,540</u>
Disbursements:						
Personal services	-	-	-	-	-	-
Supplies	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Utility operating expenses	-	-	-	1,886,861	-	-
Other disbursements	-	512,425	4,425,198	-	178,691	220,151
Total disbursements	<u>-</u>	<u>512,425</u>	<u>4,425,198</u>	<u>1,886,861</u>	<u>178,691</u>	<u>220,151</u>
Excess (deficiency) of receipts over disbursements	<u>60,510</u>	<u>179,885</u>	<u>-</u>	<u>516,860</u>	<u>(11)</u>	<u>(153,611)</u>
Cash and investments - ending	<u>\$ 531,610</u>	<u>\$ 754,136</u>	<u>\$ -</u>	<u>\$ 1,885,839</u>	<u>\$ 154,547</u>	<u>\$ -</u>

CITY OF MOUNT VERNON  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For The Year Ended December 31, 2012  
 (Continued)

	Water BAN Bond and Interst	Water BAN Construction	Water Debt Service Reserve	Water 2012 Revenue Bond Fund	Water Bond and Interest	Water 1997 Bond and Interest
Cash and investments - beginning	\$ 20,975	\$ 140,027	\$ -	\$ -	\$ -	\$ 47,098
Receipts:						
Taxes	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Other receipts	56,265	-	849,463	14,652,210	955,133	120,450
Total receipts	<u>56,265</u>	<u>-</u>	<u>849,463</u>	<u>14,652,210</u>	<u>955,133</u>	<u>120,450</u>
Disbursements:						
Personal services	-	-	-	-	-	-
Supplies	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Utility operating expenses	-	-	47	-	-	-
Other disbursements	77,240	140,027	-	13,725,981	892,473	167,548
Total disbursements	<u>77,240</u>	<u>140,027</u>	<u>47</u>	<u>13,725,981</u>	<u>892,473</u>	<u>167,548</u>
Excess (deficiency) of receipts over disbursements	<u>(20,975)</u>	<u>(140,027)</u>	<u>849,416</u>	<u>926,229</u>	<u>62,660</u>	<u>(47,098)</u>
Cash and investments - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 849,416</u>	<u>\$ 926,229</u>	<u>\$ 62,660</u>	<u>\$ -</u>

CITY OF MOUNT VERNON  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For The Year Ended December 31, 2012  
 (Continued)

	Water Consumer Meter Deposit	Water Revenue	Water Debt Service Reserve	Water Improvement	Water Petty Cash	Totals
Cash and investments - beginning	\$ 92,256	\$ -	\$ 769,388	\$ 202,693	\$ 200	\$ 8,385,332
Receipts:						
Taxes	-	-	-	-	-	3,561,413
Licenses and permits	-	-	-	-	-	10,551
Intergovernmental	-	-	-	-	-	2,506,857
Charges for services	-	-	-	-	-	378,190
Fines and forfeits	-	-	-	-	-	1,833
Utility fees	-	-	-	-	-	2,403,721
Other receipts	16,771	3,659,648	-	-	-	39,883,110
Total receipts	<u>16,771</u>	<u>3,659,648</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>48,745,675</u>
Disbursements:						
Personal services	-	-	-	-	-	3,205,446
Supplies	-	-	-	-	-	399,612
Other services and charges	-	-	-	-	-	1,455,591
Capital outlay	-	-	-	-	-	473,332
Utility operating expenses	-	-	-	-	-	1,886,908
Other disbursements	19,128	3,659,648	769,388	77,251	-	39,194,694
Total disbursements	<u>19,128</u>	<u>3,659,648</u>	<u>769,388</u>	<u>77,251</u>	<u>-</u>	<u>46,615,583</u>
Excess (deficiency) of receipts over disbursements	<u>(2,357)</u>	<u>-</u>	<u>(769,388)</u>	<u>(77,251)</u>	<u>-</u>	<u>2,130,092</u>
Cash and investments - ending	<u>\$ 89,899</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 125,442</u>	<u>\$ 200</u>	<u>\$ 10,515,424</u>

CITY OF MOUNT VERNON  
 SCHEDULE OF PAYABLES AND RECEIVABLES  
 December 31, 2012

Government or Enterprise	Accounts Payable	Accounts Receivable
Wastewater	\$ -	\$ -
Water Utility	-	-
Governmental activities	82,676	31,439
Totals	\$ 82,676	\$ 31,439

CITY OF MOUNT VERNON  
SCHEDULE OF LEASES AND DEBT  
December 31, 2012

Lessor	Purpose	Annual Lease Payment	Lease Beginning Date	Lease Ending Date
Governmental activities:				
Fifth Third Bank	2004 Aerial Ladder Fire Truck	\$ 66,618	09-26-05	09-26-13
Old National Bank	2009 Dump Truck	21,641	02-19-09	02-19-13
TCF Equipment Finance	Peterson Lightning Loader	<u>24,507</u>	08-15-10	05-15-14
Total governmental activities		<u>112,766</u>		
Total of annual lease payments		<u>\$ 112,766</u>		

Type	Description of Debt Purpose	Ending Principal Balance	Principal and Interest Due Within One Year
Governmental activities:			
Notes and loans payable	Purchase of Aerial Ladder Truck	\$ 61,486	\$ 66,618
Notes and loans payable	2009 St. Dept Dump Truck	19,916	21,641
Notes and loans payable	Peterson Lightning Loader	<u>46,937</u>	<u>24,507</u>
Total governmental activities		<u>128,339</u>	<u>112,766</u>
Wastewater:			
Notes and loans payable	2001 SRF Loan/WstWtr Improvements	1,137,118	136,200
Notes and loans payable	2006 SRF Loan/WstWtr Improvements	309,957	25,284
Notes and loans payable	2009 SRF Loan/WstWtr Improvements	2,223,288	19,421
Notes and loans payable	2011 SRF Loan/WstWtr Improvements	<u>5,273,345</u>	<u>406,203</u>
Total Wastewater		<u>8,943,708</u>	<u>587,108</u>
Water Utility:			
Revenue bonds	2012 Revenue Bonds/Wtr Improvements	14,550,000	697,688
Notes and loans payable	Meter Lease/Wtr Improvements	1,440,010	178,691
Notes and loans payable	2001 SRF Loan/Wtr Improvements	<u>2,280,000</u>	<u>258,225</u>
Total Water Utility		<u>18,270,010</u>	<u>1,134,604</u>
Totals		<u>\$ 27,342,057</u>	<u>\$ 1,834,478</u>

CITY OF MOUNT VERNON  
SCHEDULE OF CAPITAL ASSETS  
December 31, 2012

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

	Ending Balance
Governmental activities:	
Land	\$ 338,651
Buildings	1,563,467
Improvements other than buildings	241,789
Machinery, equipment, and vehicles	3,533,804
Total governmental activities	5,677,711
Wastewater:	
Land	44,940
Infrastructure	13,750,662
Buildings	1,925,070
Improvements other than buildings	7,735,113
Machinery, equipment, and vehicles	5,033,009
Total Wastewater	28,488,794
Water Utility:	
Land	135,322
Infrastructure	9,598,438
Buildings	5,687,907
Improvements other than buildings	15,905,248
Machinery, equipment, and vehicles	5,435,645
Total Water Utility	36,762,560
Total capital assets	\$ 70,929,065

CITY OF MOUNT VERNON  
AUDIT RESULTS AND COMMENTS

***ACCOUNTABLE ITEMS (Water and Wastewater Utilities)***

We noted a loss of approximately 22 percent of the amount of water pumped by the Water Utility as compared to water consumption billed to customers for the year 2012. Because the Wastewater charges are computed on water consumption, the Wastewater Utility is losing revenue as well. A similar comment was included in several prior reports.

Tickets, good for sale, billings, and other collections are considered accountable items for which a corresponding deposit must be made in the bank accounts of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

***INTERNAL CONTROLS OVER THE PREPARATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Applies to the City)***

The City did not have a proper system of internal control in place to prevent or detect and correct errors on the Schedule of Expenditures of Federal Awards (SEFA). The City should have proper controls in place over the preparation of the SEFA to ensure accurate reporting of federal awards. Without a proper system of internal control in place that operates effectively, material misstatements of the SEFA could remain undetected.

During the audit of the SEFA, we noted the following errors: the names of five federal programs were reported incorrectly, the amounts expended were reported incorrectly for two programs, two pass-through grants were reported as direct grants, four programs were reported without a CFDA number, and one program was omitted entirely from the schedule. Audit adjustments were proposed, accepted by the City, and made to the SEFA presented in this report. These adjustments resulted in a presentation of the SEFA that is materially correct in relation to the financial statement.

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

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

SUPPLEMENTAL AUDIT OF  
FEDERAL AWARDS



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE

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

***Report on Compliance for Each Major Federal Program***

We have audited the City of Mount Vernon's (City) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012. The City's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

***Opinion on Each Major Federal Program***

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

***Report on Internal Control Over Compliance***

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE  
(Continued)

that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Bruce Hartman  
State Examiner

September 18, 2013

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#### SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The Schedule of Expenditures of Federal Awards and accompanying note presented were approved by management of the City. The schedule and note are presented as intended by the City.

CITY OF MOUNT VERNON  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For The Year Ended December 31, 2012

Federal Grantor Agency Cluster Title/Program Title/Project Title	Pass-Through Entity or Direct Grant	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended
<u>Department of Housing and Urban Development</u>				
CDBG - State-Administered CDBG Cluster				
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	Indiana Office of Community and Rural Affairs	14.228		
West School Storm Water Project			CF-11-112	\$ 487,231
Disaster Recovery Program			DR2-09-134	<u>4,329,640</u>
Total - Department of Housing and Urban Development				<u>4,816,871</u>
<u>Department of Transportation</u>				
Highway Planning and Construction Cluster				
Highway Planning and Construction Safe Routes to School	Indiana Department of Transportation	20.205	DES#0810439	<u>16,348</u>
Highway Safety Cluster				
State and Community Highway Safety Operation Pull Over	Indiana Criminal Justice Institute	20.600	OP-08-01-02-05	783
Safety Belt Performance Grants	Indiana Criminal Justice Institute	20.609		<u>3,105</u>
Total - Highway Safety Cluster				<u>3,888</u>
Total - Department of Transportation				<u>20,236</u>
<u>Environmental Protection Agency</u>				
Capitalization Grants for Clean Water State Revolving Funds Waste Water	Indiana Finance Authority	66.458	WW06496504	<u>2,212,599</u>
Total - Environmental Protection Agency				<u>2,212,599</u>
<u>Department of Homeland Security</u>				
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	Indiana Department of Homeland Security	97.036	1997	<u>17,088</u>
Total - Department of Homeland Security				<u>17,088</u>
Total federal awards expended				<u>\$ 7,066,794</u>

The accompanying note is an integral part of the Schedule of Expenditures of Federal Awards.

CITY OF MOUNT VERNON  
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

***Basis of Presentation***

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Mount Vernon and is presented in accordance with the cash and investment basis of accounting used in the preparation of the financial statement. Accordingly, the amount of federal awards expended is based on when the disbursement related to the award occurs except when the federal award is received on a reimbursement basis. In these instances the federal awards are considered expended when the reimbursement is received.

CITY OF MOUNT VERNON  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**Section I – Summary of Auditor's Results**

Financial Statement:

Type of auditor's report issued:	Adverse as to GAAP; Unmodified as to Regulatory Basis
Internal control over financial reporting:	
Material weaknesses identified?	yes
Significant deficiencies identified?	none reported
Noncompliance material to financial statement noted?	yes

Federal Awards:

Internal control over major programs:	
Material weaknesses identified?	no
Significant deficiencies identified?	none reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	no

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
66.458	CDBG - State-Administered CDBG Cluster Capitalization Grants for Clean Water State Revolving Funds

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? no

**Section II – Financial Statement Findings**

**FINDING 2012-1 - INTERNAL CONTROLS OVER THE PREPARATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

The City did not have a proper system of internal control in place to prevent or detect and correct errors on the Schedule of Expenditures of Federal Awards (SEFA). The City should have proper controls in place over the preparation of the SEFA to ensure accurate reporting of federal awards. Without a proper system of internal control in place that operates effectively, material misstatements of the SEFA could remain undetected.

CITY OF MOUNT VERNON  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

During the audit of the SEFA, we noted the following errors: the names of five federal programs were reported incorrectly, the amounts expended were reported incorrectly for two programs, two pass-through grants were reported as direct grants, four programs were reported without a CFDA number, and one program was omitted entirely from the schedule. Audit adjustments were proposed, accepted by the City, and made to the SEFA presented in this report. These adjustments resulted in a presentation of the SEFA that is materially correct in relation to the financial statement.

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

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

OMB Circular A-133, Subpart C, section. 300 states in part: "The auditee shall: . . . (d) Prepare appropriate financial statements, including the schedule of expenditures of Federal Awards in accordance with section.310."

OMB Circular A-133, Subpart C, section. 310(b) states:

"Schedule of expenditures of Federal awards: The auditee shall also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements. While not required, the auditee may choose to provide information requested by Federal awarding agencies and pass-through entities to make the schedule easier to use. For example, when a Federal program has multiple award years, the auditee may list the amount of Federal awards expended for each award year separately. At a minimum, the schedule shall:

- (1) List individual Federal programs by Federal agency. For Federal programs included in a cluster of programs, list individual Federal programs within a cluster of programs. For R&D, total Federal awards expended shall be shown either by individual award or by Federal agency and major subdivision within the Federal agency. For example, the National Institutes of Health is a major subdivision I the Department of Health and Human Services.
- (2) For Federal awards received as a sub-recipient, the name of the pass-through entity and identifying number assigned by the pass-through entity shall be included.
- (3) Provide the total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available.
- (4) Include notes that describe the significant accounting policies used in preparing the schedule.
- (5) To the extent practical, pass-through entities should identify in the schedule the total amount provided to sub-recipients from each Federal program.

CITY OF MOUNT VERNON  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

- (6) Include, in either the schedule or a note to the schedule, the value of the Federal awards expended in the form of non-cash assistance, the amount of insurance in effect during the year, and loans or loan guarantees outstanding at year end. While not required, it is preferable to present this information in the schedule."

***Section III – Federal Award Findings and Questioned Costs***

No matters are reportable.



CITY OF MOUNT VERNON  
EXIT CONFERENCE

The contents of this report were discussed on September 19, 2013, with John Tucker, Mayor; Bill Curtis, President of the Common Council; Cristi L. Sitzman, Clerk-Treasurer; and Deann Blackburn, Utility Office Manager.