

THE CITY OF VERNON, TEXAS

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2014

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FINANCIAL SECTION



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Independent Auditor's Report

Mayor and City Commission
The City of Vernon, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Vernon, Texas (City) as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the City'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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Business Development Corporation of Vernon, the City's discretely presented component unit. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component unit, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 financial statement 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, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Vernon, Texas as of September 30, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Schedule on the Texas Municipal Retirement System 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

Edgin, Parkman, Fleming & Fleming, PC

EDGIN, PARKMAN, FLEMING & FLEMING, PC

Wichita Falls, Texas
February 19, 2015

City of Vernon

1725 Wilbarger
 Vernon, Texas 76384-4741
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MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Vernon, Texas, we offer readers of the City's Annual Financial Report this narrative overview and analysis of the City's financial performance during the fiscal year ended September 30, 2014. Please read it in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$19,629,948 (net position). Of this amount, \$832,083 (unrestricted net position) may be used to meet the City's obligations.
- During the year, the City's total net position decreased by \$569,964.
- The governmental funds reported a fund balance this year of \$3,768,888, which is an increase of \$260,946 in comparison with the prior year amount of \$3,507,942 or 7%. Of this total fund balance, \$184,893 is available for spending at the government's discretion (unassigned fund balance).
- At the end of the current fiscal year, unassigned fund balance for the General Fund and all other Governmental Funds was \$184,893. \$3,583,995 of the total Governmental Funds fund balances are either restricted or committed.

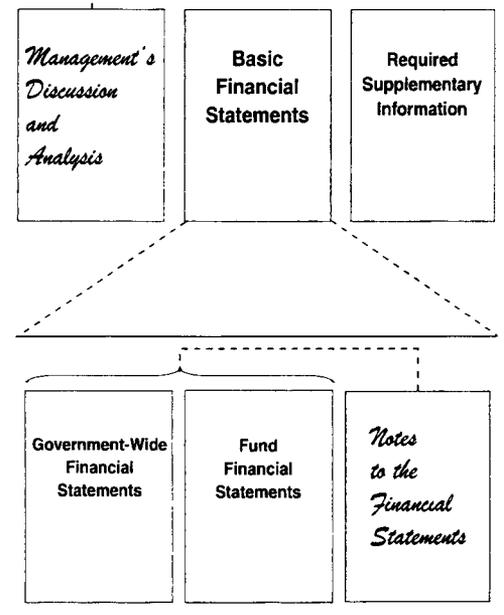
OVERVIEW OF THE FINANCIAL STATEMENTS

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

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the City's overall financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the City's operations in more detail than the government-wide statements.
- The *governmental funds* statements tell how *general government* services were financed in the *short term* as well as what remains for future spending.
- The *proprietary fund statements* offer *short- and long-term* financial information about the activities the government operates *like businesses*, such as the water and sewer system.

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

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



Summary ↔ Detail

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

Figure A-2. Major Features of the City's Government-wide and Fund Financial Statements

<i>Type of Statements</i>	Fund Statements		
	Government-wide	Governmental Funds	Proprietary Funds
<i>Scope</i>	Entire Agency's government (except fiduciary funds) and the Agency's component units	The activities of the City that are not proprietary or fiduciary	Activities the City operates similar to private businesses - the water and sewer system
<i>Required financial statements</i>	<ul style="list-style-type: none"> • Statement of net position • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures & changes in fund balances 	<ul style="list-style-type: none"> • Statement of net position • Statement of revenues, expenses, and changes in net position • Statement of cash flows
<i>Accounting basis and measurement focus</i>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
<i>Type of asset/liability information</i>	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter, no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term
<i>Type of inflow/outflow information</i>	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid

Government-wide Statements

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

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

- Over time, increases or decreases in the City's net position are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the City, one needs to consider additional non-financial factors such as changes in the City's tax base.

The government-wide financial statements of the City are divided into three categories:

- *Governmental activities.* Most of the City's basic services are included here, such as the fire department, law enforcement, street department, sanitation, parks services, the City cemetery, animal control and general administration.
- *Business-type activities.* The City charges fees to customers to help it cover the cost of certain services it provides. The City's water and sewer system are included here.
- *Component Units.* The City includes one other entity in its report - the Business Development Corporation of Vernon. Although legally separate, this "component unit" is important because the City is financially accountable for it.

Fund Financial Statements

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

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

The City has the following kinds of funds:

- *Governmental funds*—Most of the City's basic services are included in governmental funds, which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explain the relationship (or differences) between them.
- *Proprietary funds*—Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long- and short-term financial information. In fact, the City's proprietary funds are the same as its business-type activities, but provide more detail and information, such as cash flows.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net position The City's combined net position was \$19,629,948 at September 30, 2014 (See Table A-1)

Table A-1
City's Net Position

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Current and other assets	\$ 5,623,919	\$ 5,388,365	\$ 103,339	\$ 1,107,064	\$ 5,727,258	\$ 6,495,429
Capital assets, net	6,446,483	6,626,627	19,177,181	19,785,825	25,623,664	26,412,452
Total assets	12,070,402	12,014,992	19,280,520	20,892,889	31,350,922	32,907,881
Current and other liabilities	1,388,638	339,862	1,440,873	355,387	2,829,511	695,249
Long-term liabilities	1,947,919	3,053,082	6,943,544	8,985,272	8,891,463	12,038,354
Total liabilities	3,336,557	3,392,944	8,384,417	9,340,659	11,720,974	12,733,603
Net position						
Net investment in						
capital assets	3,812,056	3,847,248	11,239,490	10,888,555	15,051,546	14,735,803
Restricted	3,488,315	3,398,524	258,004	68,789	3,746,319	3,467,313
Unrestricted	1,433,474	1,376,276	(601,391)	594,886	832,083	1,971,162
Total net assets	\$ 8,733,845	\$ 8,622,048	\$ 10,896,103	\$ 11,552,230	\$ 19,629,948	\$ 20,174,278

The \$832,083 of unrestricted net position at September 30, 2014 represents resources available to fund the programs of the City next year if sufficient resources are not derived from future resources. The restricted net position are required to be set aside for long-term debt, public improvements and various other activities.

Changes in net position The City's total revenues, both program and general, were \$12,151,785. A significant portion, 68%, of the City's revenue comes from charges for services (See Figure A-3.) 1% comes from operating and capital grants and contributions, 10% comes from sales taxes, 11% from property taxes and 5% from franchise fees. Other minor categories combined make up 5% of the City's total revenues.

The total cost of all programs and services was \$12,721,749, 44% of these costs are for water, sewer and sanitation related expenses. The City's expenses cover a range of services, with 32% related to public safety, 6% for public works, 4% for cemetery, 3% for civic and cultural, 3% for Subsidies, Donations and other, and 8% general government. (See Figure A-4.)

Figure A-3
Source of Revenue for Fiscal Year 2014

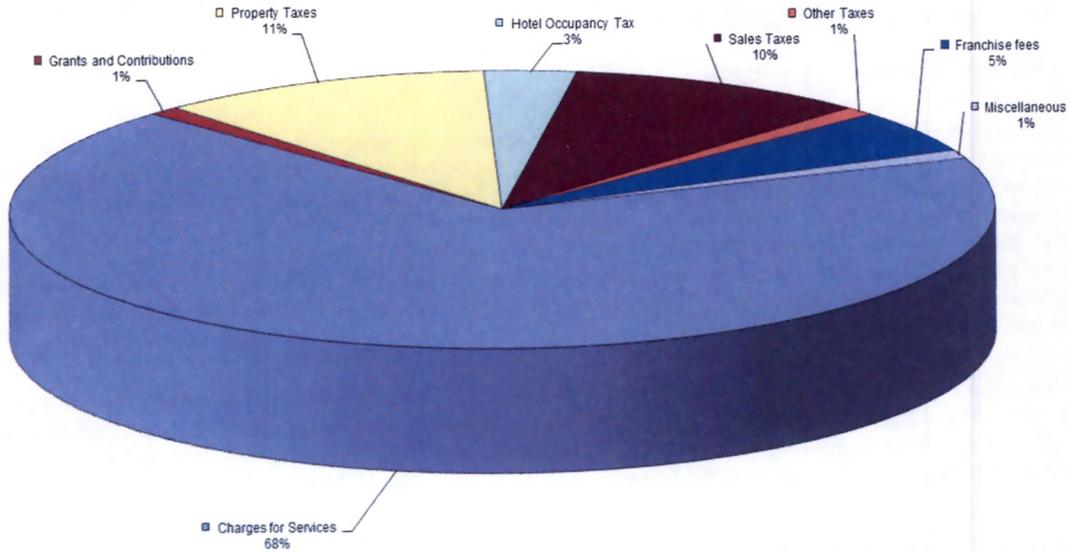
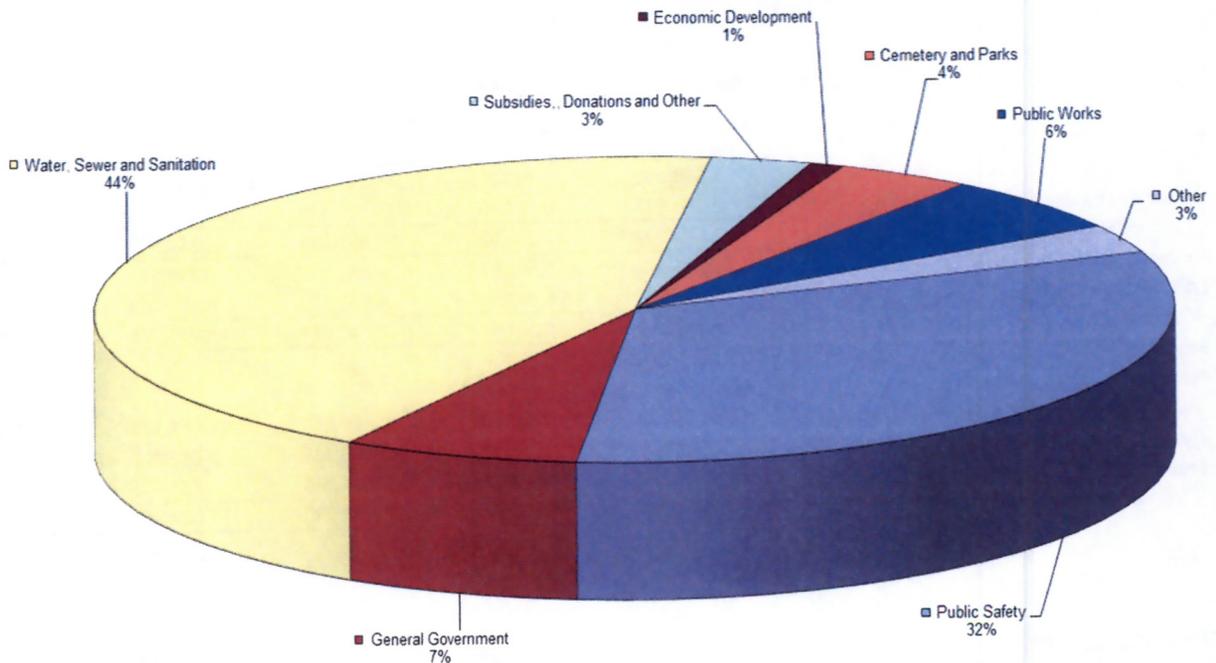


Figure A-4
Functional Expense for Fiscal Year 2014



Governmental Activities

Table A-2 presents the various revenue categories and gross costs of each of the City's functional areas for the current year.

Table A-2
Changes in Net Position

	Governmental		Business-type		Total	
	2014	2013	2014	2013	2014	2013
Revenues						
Program revenues						
Charges for services	\$ 1,987,596	\$ 1,798,708	\$ 6,321,179	\$ 6,127,861	\$ 8,308,775	\$ 7,926,569
Operating and capital grants	121,060	231,377	-	-	121,060	231,377
General revenues						
Property taxes	1,376,250	1,377,328	-	-	1,376,250	1,377,328
Sales taxes	1,207,826	1,287,460	-	-	1,207,826	1,287,460
Franchise fees	596,890	593,434	-	-	596,890	593,434
Other taxes	362,005	370,378	-	-	362,005	370,378
Investment earnings	31,947	32,621	2,497	4,984	34,444	37,605
Gain on sale of capital assets			-	-	-	-
Seizure income			-	-	-	-
Miscellaneous	128,820	131,210	15,715	15,669	144,535	146,879
Total revenues	5,812,394	5,822,516	6,339,391	6,148,514	12,151,785	11,971,030
Expenses						
General government	944,228	890,905			944,228	890,905
Public safety	4,113,918	3,881,994			4,113,918	3,881,994
Public works	796,472	801,698			796,472	801,698
Cemetery and Parks	524,324	493,384			524,324	493,384
Subsidies, donations, and other	429,100	418,791			429,100	418,791
Christmas decorations	10,743	7,598			10,743	7,598
Civic and cultural	197,313	170,928			197,313	170,928
Economic development	125,074	123,379			125,074	123,379
Interest	102,927	110,107			102,927	110,107
Water, sewer and sanitation			5,477,650	5,434,165	5,477,650	5,434,165
Other						
Total expenses	7,244,099	6,898,784	5,477,650	5,434,165	12,721,749	12,332,949
Transfers	1,517,868	1,194,738	(1,517,868)	(1,194,738)	-	-
Change in net position	86,163	118,470	(656,127)	(480,389)	(569,964)	(361,919)
Net position - beginning						
(as originally stated)	8,622,048	8,580,020	11,552,230	12,228,186	20,174,278	20,808,206
Prior period adjustment	25,634	(76,442)	-	(195,567)	25,634	(272,009)
Net position - beginning	8,647,682	8,503,578	11,552,230	12,032,619	20,199,912	20,536,197
Net position - ending	\$ 8,733,845	\$ 8,622,048	\$ 10,896,103	\$ 11,552,230	\$ 19,629,948	\$ 20,174,278

The most significant fluctuation between years relates to the following

- Charges for Services increased by \$382,206, which is due to rate increases.
- Sales Tax decreased by \$79,634 due to a decline of retail sales in the local economy.
- Franchise Fees decreased by \$61,403 due to lower natural gas purchases which decreased payments from franchise
- Public Safety increased \$231,924, mostly due to open positions being filled.

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

- The cost of all *governmental* activities this year was \$7,244,099; however, the amount that our taxpayers paid for these activities through property taxes was \$1,376,250.
- Some of the cost was paid by those who directly benefited from the programs through charges for services of \$1,987,596.

**Table A-3
Net Cost of Governmental Activities**

	Total Cost of Services		Net Cost of Services	
	2014	2013	2014	2013
General government	\$ 944,228	\$ 890,905	\$ 671,012	\$ 600,928
Public safety	4,113,918	3,881,994	2,700,592	2,560,888
Public works	796,472	801,698	687,542	693,046
Cemetery and parks	524,324	493,384	280,532	251,538
Economic development	125,074	123,379	125,074	123,379
Subsidies, donations and other	429,100	418,791	365,878	356,609
Christmas decorations	10,743	7,598	4,573	1,276
Civic and cultural	197,313	170,928	197,313	170,928

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Revenues from governmental funds totaled \$5,731,784 a decrease of \$58,350 or 1%. The largest decrease was a decrease in sales taxes of \$79,634 or 6%. Negative revenue seen in sales taxes being down can be attributed to a decline of retail sales in the local economy.

Expenditures from governmental funds totaled \$7,119,044, an increase of \$161,196 or 2%. The largest increase was in Public Safety, an increase of \$107,420 or 3%. The second largest increase was in Capital Outlay, which was an increase of \$80,900 or 60%. This was mostly due to a purchase of an ambulance.

Transfers to the general fund increased by \$282,532 or 21%.

General Fund Budgetary Highlights

Over the course of the year, the City revised its budget. Franchise revenue was down because less heating gas was sold in prior year's mild winter, so less franchise revenue was remitted to City. Court revenue was down because Police and Code Enforcement issued fewer tickets due to significantly higher local compliance with laws. Sales Tax was strong due to energy interests of local business and traveling crews, a trend expected to last 2-3 years. Statewide drought negatively impacted water revenue because the City was not able to sell water to meet historical household demand. The City usually depends on robust water sales to rebuild revenue; however, this has not happened in recent years. In response, the City cut expenses and deferred seal coating of streets.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At September 30, 2014, the City had invested in a broad range of capital assets totaling \$25,623,664, including land, equipment, buildings, and vehicles. (See Table A-4.)

**Table A-4
Capital Assets Net of Accumulated Depreciation**

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Land	\$ 981,029	\$ 981,029	\$ 721,690	\$ 721,690	\$ 1,702,719	\$ 1,702,719
Construction in progress	12,972	-	-	13,473	12,972	13,473
Buildings and improvements	1,540,829	1,594,714	18,071,844	18,577,522	19,612,673	20,172,236
Infrastructure	2,119,024	2,163,630	-	-	2,119,024	2,163,630
Equipment, furniture, fixtures	795,470	910,786	341,013	401,189	1,136,483	1,311,975
Vehicles	997,159	976,468	42,634	71,951	1,039,793	1,048,419
Total net capital assets	\$ 6,446,483	\$ 6,626,627	\$ 19,177,181	\$ 19,785,825	\$ 25,623,664	\$ 26,412,452

More detailed information about the City's capital assets is presented in the notes to the financial statements.

For 2014-15, the City plans the following capital asset projects:

GENERAL

Asphalt Sealcoating	\$75,000
Bentley Street Reconstruction (\$15,000 grant match)	<u>300,000</u>
Total	\$375,000

ENTERPRISE

New Environmental Regulations and Testing	\$2,500
Upgrades to Water Production	30,360
Nitrate Bead Replacement (Partial)	30,000
Water Transmission Line (Partial)	44,000
Water Sources	<u>28,000</u>
Total	\$134,860

PERPETUAL CARE

Cemetery Curb & Gutter (From Perpetual Care Fund)	\$40,000
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Long-term Obligations

At September 30, 2014, the City had \$10,940,974 in bonds, compensated absences, and leases outstanding as shown in Table A-5. More detailed information about the City's long-term obligations is presented in the notes to the financial statements.

**Table A-5
Outstanding Debt**

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Certificates of Obligation	\$ 1,225,000	\$ 1,270,000	\$ -	\$ -	\$ 1,225,000	\$ 1,270,000
Capital Leases	822,116	1,020,193	41,927	70,527	864,043	1,090,720
Notes payable	587,311	489,186	252,450	237,000	839,761	726,186
Compensated absences	291,938	273,703	76,918	88,001	368,856	361,704
Revenue Bonds	-	-	7,643,314	8,589,744	7,643,314	8,589,744
Total	\$ 2,926,365	\$ 3,053,082	\$ 8,014,609	\$ 8,985,272	\$ 10,940,974	\$ 12,038,354

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The downturn in water sales due to the ongoing drought has continued to take a toll on the financial position of the City of Vernon. In order to compensate for the loss in revenue, the City Commission has taken a multi-faceted approach to changing the downturn.

Increases in Revenue

In the General Fund, the tax revenue was increased for fiscal year ending 2015 by an estimated \$82,228 through a tax increase. The tax value increased by \$2,987,060 for 2014 due to real property values. That rate is \$0.380 and is above the effective tax rate. This is partially offset by a 3.1% reduction in revenue due to less money being transferred from the Utility Fund to General Fund.

Revenue increases were approved at an 8.8% increase in Water and Sewer revenue to rebuild fund balance.

Decrease in Expenses

Expenses were cut by 5.2% by operational cuts and staff reduction through attrition. An overall staff reduction will total 7 full time positions, or a combination thereof.

In the Enterprise Fund, expenses were reduced by 2.6% due to the reduction in transfer from the Utility Fund to General Fund.

The Adopted budget shows an increase of \$172,652 in General Fund Balance and \$1,049,032 in the Utility (Enterprise) Fund for a total, if realized, of a \$993,584 increase in the City's net position for fiscal year ending 2015.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

BASIC FINANCIAL STATEMENTS

THE CITY OF VERNON, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2014

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents	\$ 3,749,010	\$ 44,186	\$ 3,793,196	\$ 308,785
Receivables:				
Due from primary government	-	-	-	109,399
Customers (net)	-	489,547	489,547	-
Ambulance (net)	319,696	-	319,696	-
Property taxes (net)	102,769	12	102,781	-
Sales taxes	325,250	-	325,250	-
Hotel occupancy taxes	37,610	-	37,610	-
Franchise fees	212,824	-	212,824	-
Other	8,705	-	8,705	-
Internal balances	837,361	(837,361)	-	-
Other assets	326	450	776	-
Restricted assets				
Cash and cash equivalents	30,368	406,505	436,873	-
Capital assets not being depreciated	994,001	721,690	1,715,691	110,336
Capital assets being depreciated (net)	5,452,482	18,455,491	23,907,973	468,841
Total assets	<u>12,070,402</u>	<u>19,280,520</u>	<u>31,350,922</u>	<u>997,361</u>
Liabilities				
Accounts payable	276,891	137,782	414,673	-
Taxes payable	704	45,282	45,986	-
Due to component unit	109,399	-	109,399	-
Accrued interest payable	23,198	13,677	36,875	-
Customer deposits	-	173,067	173,067	-
Long-term liabilities				
Portion due or payable within one year	978,446	1,071,065	2,049,511	142,556
Portion due or payable after one year	1,947,919	6,943,544	8,891,463	1,746,893
Total liabilities	<u>3,336,557</u>	<u>8,384,417</u>	<u>11,720,974</u>	<u>1,889,449</u>
Net Position				
Net investment in capital assets	3,812,056	11,239,490	15,051,546	578,311
Restricted	3,488,315	258,004	3,746,319	-
Unrestricted	1,433,474	(601,391)	832,083	(1,470,399)
Total net position	<u>\$ 8,733,845</u>	<u>\$ 10,896,103</u>	<u>\$ 19,629,948</u>	<u>\$ (892,088)</u>

See accompanying notes to the basic financial statements.

THE CITY OF VERNON, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2014

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Primary government:			
Governmental activities:			
General government	\$ 944,228	\$ 251,174	\$ 22,042
Public safety	4,113,918	1,368,876	44,450
Public works	796,472	99,305	9,625
Cemetery and parks	524,324	205,019	38,773
Subsidies, donations and other	429,100	63,222	-
Christmas decorations	10,743	-	6,170
Civic and cultural	197,313	-	-
Economic development	125,074	-	-
Interest expense	102,927	-	-
Total governmental activities	7,244,099	1,987,596	121,060
Business-type activities			
Water	2,275,028	2,997,665	-
Sewer	1,421,123	1,741,211	-
Sanitation	1,647,878	1,470,777	-
Other	133,621	111,526	-
Total business-type activities	5,477,650	6,321,179	-
Total primary government	\$ 12,721,749	\$ 8,308,775	\$ 121,060
Component unit:			
Business Development Corporation of Vernon	\$ 543,977	\$ 60,000	\$ -
General revenues and transfers			
Taxes:			
Property taxes			
Franchise fees			
Sales taxes			
Hotel occupancy taxes			
Other taxes			
Interest earnings			
Grant recoveries			
Miscellaneous			
Transfers			
Total general revenues and transfers			
Change in net position			
Net position - beginning			
Net position - ending			

See accompanying notes to the basic financial statements.

Net (Expense) Revenue and Changes in Net Position			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Unit
\$ (671,012)	\$ -	\$ (671,012)	\$ -
(2,700,592)	-	(2,700,592)	-
(687,542)	-	(687,542)	-
(280,532)	-	(280,532)	-
(365,878)	-	(365,878)	-
(4,573)	-	(4,573)	-
(197,313)	-	(197,313)	-
(125,074)	-	(125,074)	-
(102,927)	-	(102,927)	-
<u>(5,135,443)</u>	<u>-</u>	<u>(5,135,443)</u>	<u>-</u>
-	722,637	722,637	-
-	320,088	320,088	-
-	(177,101)	(177,101)	-
-	(22,095)	(22,095)	-
<u>-</u>	<u>843,529</u>	<u>843,529</u>	<u>-</u>
<u>(5,135,443)</u>	<u>843,529</u>	<u>(4,291,914)</u>	<u>-</u>
-	-	-	(483,977)
1,376,250	-	1,376,250	-
596,890	-	596,890	-
1,207,826	-	1,207,826	603,912
359,177	-	359,177	-
2,828	-	2,828	-
31,947	2,497	34,444	3,925
-	-	-	160,000
128,820	15,715	144,535	-
1,517,868	(1,517,868)	-	-
<u>5,221,606</u>	<u>(1,499,656)</u>	<u>3,721,950</u>	<u>767,837</u>
86,163	(656,127)	(569,964)	283,860
<u>8,647,682</u>	<u>11,552,230</u>	<u>20,199,912</u>	<u>(1,175,948)</u>
<u>\$ 8,733,845</u>	<u>\$ 10,896,103</u>	<u>\$ 19,629,948</u>	<u>\$ (892,088)</u>

THE CITY OF VERNON, TEXAS
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2014

	General	Electric Trust Principal	Other Governmental	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 141,698	\$ 2,841,618	\$ 503,602	\$ 3,486,918
Receivables				
Ambulance (net)	319,696	-	-	319,696
Property taxes (net)	102,769	-	-	102,769
Sales taxes	325,250	-	-	325,250
Franchise fees	66,673	-	-	66,673
Hotel occupancy taxes	-	-	37,610	37,610
Other	6,265	-	2,440	8,705
Due from other funds	28,385	-	18,905	47,290
Other assets	326	-	-	326
Restricted assets:				
Cash and cash equivalents	30,368	-	-	30,368
Total assets	<u>\$1,021,430</u>	<u>\$ 2,841,618</u>	<u>\$ 562,557</u>	<u>\$ 4,425,605</u>
Liabilities, deferred inflows of resources, and fund balances				
Liabilities:				
Accounts payable	\$ 149,736	\$ -	\$ 3,787	\$ 153,523
Taxes payable	704	-	-	704
Due to other funds	21,989	-	25,436	47,425
Due to component unit	109,399	-	-	109,399
Total liabilities	<u>281,828</u>	<u>-</u>	<u>29,223</u>	<u>311,051</u>
Deferred inflows of resources:				
Unavailable revenues	<u>345,666</u>	<u>-</u>	<u>-</u>	<u>345,666</u>
Fund balances:				
Restricted	113,363	2,841,618	533,334	3,488,315
Committed	95,680	-	-	95,680
Unassigned	184,893	-	-	184,893
Total fund balances	<u>393,936</u>	<u>2,841,618</u>	<u>533,334</u>	<u>3,768,888</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$1,021,430</u>	<u>\$ 2,841,618</u>	<u>\$ 562,557</u>	<u>\$ 4,425,605</u>

See accompanying notes to the basic financial statements.

THE CITY OF VERNON, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2014

Total fund balances - governmental funds (Exhibit A-3)		\$ 3,768,888
Amounts reported for <i>governmental activities</i> in the Statement of Net Position (Exhibit A-1) are different because:		
Capital assets used in governmental activities are not financial resources and therefore not reported in the funds. Capital assets at year-end consist of:		
Gross capital assets	\$ 9,972,567	
Related accumulated depreciation	<u>3,526,084</u>	6,446,483
Property taxes receivable are not available to pay for current period expenditures and therefore are deferred inflows of resources in the funds.		95,104
Ambulance fees receivable are not available to pay for current period expenditures and therefore are deferred inflows of resources in the funds.		250,562
Franchise fees receivables are only recognized at the fund level when they are measurable and available within 60 days of year-end. Franchise fees receivables are recognized as they are earned at the government-wide level.		146,151
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:		
Certificates of obligation	1,225,000	
Capital leases	822,116	
Notes payable	587,311	
Compensated absences	291,938	
Accrued interest on long-term debt	<u>23,198</u>	(2,949,563)
The assets and liabilities of the internal service funds are included in the governmental activities in the Statement of Net Position.		<u>976,220</u>
Total net position - governmental activities (Exhibit A-1)		<u><u>\$ 8,733,845</u></u>

See accompanying notes to the basic financial statements.

THE CITY OF VERNON, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2014

	General	Electric Trust Principal	Other Governmental	Total Governmental Funds
Revenues				
Property taxes	\$ 1,372,334	\$ -	\$ -	\$ 1,372,334
Franchise fees	625,252	-	-	625,252
Sales taxes	1,207,826	-	-	1,207,826
Hotel occupancy taxes	-	-	359,177	359,177
Other taxes	2,828	-	-	2,828
Licenses and permits	14,134	-	-	14,134
Cemetery income	58,548	-	-	58,548
Contracts	141,233	-	-	141,233
Swimming pool	76,089	-	-	76,089
Ambulance service	595,333	-	-	595,333
Administrative charges to other funds	899,571	-	-	899,571
Fines and fees	109,780	-	-	109,780
Grants and donations	33,852	-	106,060	139,912
Investment earnings	1,705	18,458	4,040	24,203
Other revenues	104,964	-	600	105,564
Total revenues	<u>5,243,449</u>	<u>18,458</u>	<u>469,877</u>	<u>5,731,784</u>
Expenditures				
General government	897,984	-	3,763	901,747
Public safety	3,683,456	-	41,331	3,724,787
Public works	673,996	-	9,625	683,621
Cemetery and parks	455,275	-	3,087	458,362
Subsidies, donations and other	429,100	-	-	429,100
Christmas decorations	-	-	10,743	10,743
Civic and cultural	-	-	197,313	197,313
Economic development	-	-	125,074	125,074
Capital outlay	190,925	-	25,554	216,479
Debt service:				
Principal	267,585	-	-	267,585
Interest charges	104,233	-	-	104,233
Total expenditures	<u>6,702,554</u>	<u>-</u>	<u>416,490</u>	<u>7,119,044</u>
Excess of revenues over (under) expenditures	<u>(1,459,105)</u>	<u>18,458</u>	<u>53,387</u>	<u>(1,387,260)</u>
Other Financing Sources (Uses)				
Proceeds from the issuance of debt	121,160	-	-	121,160
Proceeds from sale of capital assets	-	-	5,875	5,875
Proceeds from sale of perpetual care spaces	-	-	3,303	3,303
Transfers in	1,628,001	-	12,973	1,640,974
Transfers out	(13,940)	(13,843)	(95,323)	(123,106)
Total other financing sources (uses)	<u>1,735,221</u>	<u>(13,843)</u>	<u>(73,172)</u>	<u>1,648,206</u>
Net change in fund balance	276,116	4,615	(19,785)	260,946
Fund balances - beginning	<u>117,820</u>	<u>2,837,003</u>	<u>553,119</u>	<u>3,507,942</u>
Fund balances - ending	<u>\$ 393,936</u>	<u>\$ 2,841,618</u>	<u>\$ 533,334</u>	<u>\$ 3,768,888</u>

See accompanying notes to the basic financial statements.

THE CITY OF VERNON, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2014

Net change in fund balances - total governmental funds (Exhibit A-5)		\$ 260,946
Amounts reported for <i>governmental activities</i> in the Statement of Activities (Exhibit A-2) are different because:		
Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense. The net difference between the two is as follows:		
Capital outlay during the year	\$ 248,752	
Depreciation expense for the year	<u>427,424</u>	(178,672)
The net book value of the capital assets disposed of during the year are not reported in the fund financial statements. However, in the Statement of Activities, the net book value of the capital assets disposed of during the year are recorded and were.		(1,472)
Because certain receivables will not be collected for several months after the City's fiscal year ends, they are not considered 'available' revenues and are deferred in the governmental funds. The deferred inflow portions changed by these amounts this year:		
Property taxes	3,916	
Ambulance fees	89,605	
Franchise fees	<u>(25,632)</u>	67,889
Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. Principal payments during the year were.		
Certificate of obligation	45,000	
Note payable	23,035	
Capital leases payable	<u>198,077</u>	266,112
The issuance of debt is reported as an other financing source in the governmental fund financial statements; but as a long-term liability in the government-wide financial statements. The total debt issued during the year was.		(121,160)
Accrued interest payable from the beginning of the year to the end of the year changed by:		2,779
Compensated absences are reported as the amount is earned in the Statement of Activities, but as paid in the governmental funds. During the year, the liability changed by:		(18,235)
Decrease in the franchise fees receivable from the prior year (not included in the governmental funds).		(2,730)
The internal service funds' activities related to the General Fund are included in the Statement of Activities of the governmental activities.		<u>(189,294)</u>
Change in net position of governmental activities (Exhibit A-2)		<u>\$ 86,163</u>

See accompanying notes to the basic financial statements.

THE CITY OF VERNON, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2014

	Enterprise Fund	Internal Service Funds
	Utility Fund	
Assets		
Current assets		
Cash and cash equivalents	\$ 44,186	\$ 262,092
Receivables		
Customers (net)	489,547	-
Property taxes (net)	12	-
Due from other funds	3,626	948,668
Other assets	450	-
Restricted assets		
Cash and cash equivalents	406,505	-
Total current assets	<u>944,326</u>	<u>1,210,760</u>
Long-term assets.		
Capital assets not being depreciated	721,690	-
Capital assets being depreciated (net)	18,455,491	-
Total long-term assets	<u>19,177,181</u>	<u>-</u>
 Total assets	 <u>20,121,507</u>	 <u>1,210,760</u>
Liabilities		
Current liabilities:		
Accounts payable	137,782	123,368
Taxes payable	45,282	-
Due to other funds	952,159	-
Accrued interest payable	13,677	-
Customer deposits	173,067	-
Current maturities of long-term obligations	1,071,065	-
Total current liabilities	<u>2,393,032</u>	<u>123,368</u>
Long-term liabilities.		
Long-term obligations, less current maturities	<u>6,943,544</u>	<u>-</u>
 Total liabilities	 <u>9,336,576</u>	 <u>123,368</u>
Net Position		
Net investment in capital assets	11,239,490	-
Restricted	258,004	-
Unrestricted	(712,563)	1,087,392
Total net position	<u>10,784,931</u>	<u>\$ 1,087,392</u>
Reconciliation to government-wide statement of net position.		
Adjustment to reflect the consolidation of the Internal Service Funds' activities related to the Enterprise Fund	111,172	
Net position of business-type activities	<u>\$ 10,896,103</u>	

See accompanying notes to the basic financial statements.

THE CITY OF VERNON, TEXAS
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

	Enterprise Fund	Internal Service Funds
	Utility Fund	
Operating revenues:		
Water revenues	\$ 2,971,116	\$ -
Sewer revenues	1,741,211	-
Sanitation revenues	1,470,777	-
Charges and fees	-	838,973
Late fees	111,526	-
Other revenues	15,715	-
Total operating revenues	<u>6,310,345</u>	<u>838,973</u>
Operating expenses:		
Billing and collection	221,332	-
Water	1,582,067	-
Sewer	888,837	-
Sanitation	1,563,850	-
Insurance claims and related	-	1,087,577
Bad debts	93,774	-
Depreciation	713,609	-
Other operating expenses	39,847	-
Total operating expenses	<u>5,103,316</u>	<u>1,087,577</u>
Operating income (loss)	<u>1,207,029</u>	<u>(248,604)</u>
Nonoperating revenues (expenses):		
Interest income	2,497	7,744
Rent income	26,549	-
Interest expense	(322,768)	-
Total nonoperating revenues (expenses)	<u>(293,722)</u>	<u>7,744</u>
Income (loss) before transfers	<u>913,307</u>	<u>(240,860)</u>
Transfers in	967	-
Transfers out	(1,518,835)	-
Net transfers	<u>(1,517,868)</u>	<u>-</u>
Change in net position	(604,561)	(240,860)
Net position - beginning	<u>11,389,492</u>	<u>1,328,252</u>
Net position - ending	\$ 10,784,931	<u>\$ 1,087,392</u>
Reconciliation to government-wide statement of activities		
Adjustment to reflect the consolidation of the Internal Service		
Fund's activities related to the Enterprise Fund	(51,566)	
Change in net position of the business-type activities	<u>\$ (656,127)</u>	

See accompanying notes to the basic financial statements.

THE CITY OF VERNON, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
SEPTEMBER 30, 2014

	Enterprise Fund	Internal Service Funds
	Utility Fund	
Cash flows from operating activities:		
Received from customers	\$ 6,370,828	\$ 838,973
Payments to suppliers	(3,577,519)	-
Payments to employees	(811,569)	-
Payments to claimants/beneficiaries	-	(980,769)
Net cash provided (used) by operating activities	1,981,740	(141,796)
Cash flows from noncapital financing activities:		
Increase in customer deposits	11,187	-
Long-term loan from other fund	948,668	-
Transfers from other funds	967	-
Transfers to other funds	(1,518,835)	-
Net cash used by noncapital financing activities	(558,013)	-
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(118,438)	-
Issuance of long-term debt	44,480	-
Principal paid on long-term debt	(997,630)	-
Interest paid on long-term debt	(324,193)	-
Net cash used by capital and related financing activities	(1,395,781)	-
Cash flows from investing activities:		
Long-term loan to other fund	-	(948,668)
Interest on investments	2,497	7,744
Rents received	26,549	-
Net cash provided (used) by investing activities	29,046	(940,924)
Net Increase (Decrease) in Cash and Cash Equivalents	56,992	(1,082,720)
Cash and Cash Equivalents - Beginning	393,699	1,382,835
Cash and Cash Equivalents - Ending	\$ 450,691	\$ 300,115
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities.		
Operating income (loss)	\$ 1,207,029	\$ (210,581)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities.		
Depreciation	713,609	-
Amortization of bond premium	6,429	-
(Increase) decrease in current assets		
Customer utility receivables	60,767	-
Property taxes receivables	31	-
Due from other funds	(37)	-
Increase (decrease) in current liabilities:		
Accounts payable	3,106	68,785
Taxes payable	2,167	-
Due to other funds	(278)	-
Compensated absences	(11,083)	-
Total adjustments	774,711	68,785
Net cash provided (used) by operating activities	\$ 1,981,740	\$ (141,796)
Reconciliation of Cash and Cash Equivalents on the Statement of Net Position to the Statement of Cash Flows.		
Cash and cash equivalents	\$ 44,186	\$ 262,092
Restricted assets - cash and cash equivalents	406,505	-
Total cash and cash equivalents - ending	\$ 450,691	\$ 262,092

See accompanying notes to the basic financial statements.

THE CITY OF VERNON, TEXAS
STATEMENT OF ASSETS AND LIABILITIES
FIDUCIARY FUNDS
SEPTEMBER 30, 2014

	Agency Funds
Assets	
Cash and cash equivalents	\$ 57,585
Total assets	\$ 57,585
 Liabilities	
Payable to others	\$ 57,585
Total liabilities	\$ 57,585

See accompanying notes to the basic financial statements.

THE CITY OF VERNON, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2014

	Budgeted Amounts		Actual	Variance With
	Original	Final		Final Budget - Positive (Negative)
Revenues				
Property taxes	\$ 1,374,000	\$ 1,371,522	\$ 1,372,334	\$ 812
Franchise fees	640,000	625,808	625,252	(556)
Sales taxes	1,280,000	1,205,300	1,207,826	2,526
Other taxes	3,000	2,828	2,828	-
Licenses and permits	12,300	14,798	14,134	(664)
Cemetery income	63,500	60,563	58,548	(2,015)
Contracts	135,000	152,893	141,233	(11,660)
Swimming pool	73,200	76,209	76,089	(120)
Ambulance service	582,000	587,543	595,333	7,790
Administrative charges to other funds	899,571	899,571	899,571	-
Fines and fees	179,595	109,165	109,780	615
Grants and donations	-	38,852	33,852	(5,000)
Investment earnings	3,560	1,736	1,705	(31)
Other revenues	57,600	43,125	104,964	61,839
Total revenues	<u>5,303,326</u>	<u>5,189,913</u>	<u>5,243,449</u>	<u>53,536</u>
Expenditures				
General government	876,879	868,591	897,984	(29,393)
Public safety	3,679,289	3,705,804	3,683,456	22,348
Public works	763,360	678,530	673,996	4,534
Cemetery and parks	457,129	465,115	455,275	9,840
Subsidies, donations and other	382,137	596,596	429,100	167,496
Capital outlay	225,540	220,978	190,925	30,053
Debt service.				
Principal	216,679	196,791	267,585	(70,794)
Interest charges	36,369	41,589	104,233	(62,644)
Total expenditures	<u>6,637,382</u>	<u>6,773,994</u>	<u>6,702,554</u>	<u>71,440</u>
Excess of revenues under expenditures	<u>(1,334,056)</u>	<u>(1,584,081)</u>	<u>(1,459,105)</u>	<u>124,976</u>
Other Financing Sources (Uses)				
Debt proceeds	161,160	161,160	121,160	(40,000)
Proceeds from the sale of capital assets	18,000	53,853	-	(53,853)
Transfers in	1,189,187	1,321,105	1,628,001	306,896
Transfers out	-	-	(13,940)	13,940
Total other financing sources (uses)	<u>1,368,347</u>	<u>1,536,118</u>	<u>1,735,221</u>	<u>226,983</u>
Net change in fund balance	34,291	(47,963)	276,116	351,959
Fund balances - beginning	<u>117,820</u>	<u>117,820</u>	<u>117,820</u>	<u>-</u>
Fund balances - ending	<u>\$ 152,111</u>	<u>\$ 69,857</u>	<u>\$ 393,936</u>	<u>\$ 351,959</u>

See accompanying notes to the basic financial statements.

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of The City of Vernon, Texas (City) conform to accounting principles generally accepted in the United States of America (GAAP) applicable to state and local governments. GAAP for local governments includes those principles prescribed by the Governmental Accounting Standards Board (GASB), which includes all statements and interpretations of the National Council on Governmental Accounting (NCGA) unless modified by the GASB, and those principles prescribed by the American Institute of Certified Public Accountants in the publication entitled Audits of State and Local Governmental Units. The following is a summary of the more significant policies and practices used by the City

A. Reporting Entity

The City is a municipal corporation governed by an elected Mayor and four-member City Commission. The City Commission is the policy-making body of the City and operates under provisions of state statute

In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The decision whether to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP Financial Accountability: the primary government is deemed to be financially accountable if it appoints a voting majority of the organization's governing body and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits or impose specific financial burdens on the primary government. Additionally, the primary government may be financially accountable if an organization is fiscally dependent on the primary government regardless of whether the organization has a separately elected governing board, a governing board appointed by a higher level of government or a jointly appointed board. Based on these criteria, the City has one component unit – the Business Development Corporation of Vernon (BDC)

The BDC is a non-profit corporation formed in 1993 for the purpose of promoting economic development for the City in order to retain and expand existing business, expand and diversify the tax base of the City, attract new business and investment to the City, enhance existing job opportunities, create new job opportunities and improve the quality of life and environment for the citizens of the City. The Corporation operates under the authority of Vernon's Civil Statutes, Article 5190.6, Section 4B and utilizes the accrual basis of accounting. The BDC is considered to be a part of the City's financial reporting entity because the City Commission appoints its Board of Directors, approves its budgets, and exercises final authority over its operations

B. Basis of Presentation

Government-wide Financial Statements

The basic financial statements include both government-wide (based on the City as a whole) and fund financial statements. The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all the non-fiduciary activities of the City. For the most part, the effects of interfund activity have been removed from these statements

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

The government-wide statement of activities demonstrates the degree to which the direct expenses of a functional category (public works, public transportation, etc.) or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment, 2) grants and contributions that are restricted to meeting operational requirements of a particular function or segment, and 3) grants and contributions that are restricted to meeting the capital requirements of a particular function or segment. Taxes and other items not included among program revenues are reported instead as general revenues.

Fund Financial Statements

Separate fund-based financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. GASB Statement No. 34 sets forth minimum criteria (percentage of assets, liabilities, revenues or expenditures/expenses of either fund category for governmental and enterprise) for the determination of major funds. The major governmental funds are the General Fund and Electric Trust Principal Fund. The major enterprise fund is the Utility Fund.

The government-wide focus is more on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The focus of the fund financial statements is on the major individual funds. Each presentation provides valuable information that can be analyzed and compared to enhance the usefulness of the information.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

Government fund-level financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Property taxes, sales taxes and franchise fees associated with the current fiscal period are susceptible to accrual and have been recognized as revenues of the current fiscal period.

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

The City reports the following major governmental funds:

The General Fund is the City's primary operating fund. All general tax revenues and other receipts, including sanitation revenue, that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid general operating costs, fixed charges, and capital improvement costs that are not paid through other funds.

The Electric Trust Principal Fund is a permanent fund comprised of the proceeds from the sale of the City's electric utility and accumulated revenues thereon. The proceeds from the sale must remain in the fund and be invested. Twenty-five percent of the investment revenue of the fund must remain in the fund and be reinvested. The remaining seventy-five percent of revenue is transferred to the General Fund where its use is restricted to the acquisition of permanent public improvements.

The City reports the following major enterprise fund:

The Utility Fund accounts for water, sewer and sanitation services provided to the residents of the City. Activities necessary to provide such services are accounted for in the fund, including, but not limited to, administration, operations, maintenance, finance and related debt service.

In addition, the City reports the following non-major fund types:

Other Governmental Funds include the Special Revenue Funds and Capital Projects Funds.

The Special Revenue Funds account for proceeds for specific revenues that are legally restricted to expenditures for a specified purpose.

The Internal Service Funds are used to account for revenues and expenses related to services provided to parties inside the City. These funds facilitate distribution of support costs to the users of support services on a cost reimbursement basis. Because the principal users of the internal services are the City's governmental activities, this fund type is included in the "Governmental Activities" column of the government-wide financial statements.

The Agency Funds are contributions by employees as additional savings and are held in a purely custodial capacity (assets equal liabilities). Agency funds typically involve only the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments. These funds are reported in the fiduciary fund financial statements. Because their assets are held in a trustee or agent capacity and are not available to support City programs, these funds are not included in the government-wide statements.

GASB Statement No. 34 eliminates the presentation of account groups but provides for these records to be maintained and incorporates the information into the Governmental Activities column in the government-wide Statement of Net Position.

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's Utility Fund are charges to customers for services. Operating expenses for the Utility Fund include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Budget Policies

The City adheres to the following procedures in establishing the budget reflected in the financial statements:

1. Prior to the beginning of each fiscal year, the City Manager submits to the City Commission a proposed budget for the fiscal year beginning on the following October 1. The operating budget, which represents the financial plan for the ensuing year, includes proposed expenditures and the means of financing them.
2. A public hearing is conducted at which all interested persons' comments concerning the budget are heard.
3. The budget is then approved by the City Commission through passage of appropriation and tax levying ordinances prior to October 1.
4. The City Commission must approve any transfer of appropriation balances or portions thereof from one department to another. The reported budgetary data includes amendments made during the year.
5. Annual budgets are legally adopted for the General Fund on a basis consistent with generally accepted accounting principles.
6. At the close of each year, any unencumbered appropriation balances (appropriations including prior year encumbrances less current year expenditures and encumbrances) lapse or revert to the unassigned fund balance.

E. Assets, Liabilities and Net Position or Equity

1. Cash, Cash Equivalents and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments are carried at fair value. Fair value is determined as the price at which two willing parties would complete an exchange. Interest earned on investments is recorded in the funds in which the investments are recorded.

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2. Property Taxes

Property taxes attach as an enforceable lien on property as of January 1 of the prior year. Taxes are levied on October 1, and do not begin to accrue interest until February 1. The City is permitted by the Municipal Finance Law of the State of Texas to levy taxes (exclusive of those amounts levied to service long-term debt) up to \$2.25 per \$100 of assessed valuation. The City's tax rate for the current year was \$ 360778 per \$100 in assessed valuation.

An allowance for uncollectible tax receivables within the General Fund is based upon historical experience in collecting taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the City is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

3 Inventories and Prepaid Items

The City records purchases of supplies as expenditures, utilizing the purchase method of accounting for inventory.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

4 Capital Assets

Capital assets which include land, buildings and improvements, equipment and infrastructure assets (e.g. roads, bridges, sidewalks and similar items) are reported in the government-wide financial statements. The City defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the time received.

Capital assets are depreciated using the straight line method over the following useful lives.

<u>Assets</u>	<u>Years</u>
Buildings	30-50
Infrastructure	30-50
Land Improvements	20-30
Vehicles	4-10
Machinery & Equipment	5-15

5. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. For the year ended September 30, 2014, the City has no items that qualify for reporting in this category.

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflow of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has two types of items that qualify for reporting in this category, property taxes and ambulance receivables. Property taxes and ambulance receivables are unavailable and therefore cannot be recognized as revenue in the governmental funds until they are received. The balances of each at September 30, 2014 are as follows:

Property taxes	\$ 95,104
Ambulance fees	<u>250,562</u>
Total deferred inflows of resources	<u>\$345,666</u>

6. Compensated Absences

Employees in permanent positions are eligible for vacation benefits, either as time off with pay or as terminal in cases of separation from City employment. The liabilities for unused vacation time are recorded in the Enterprise Fund and governmental activities column of the government-wide statements.

Permanent employees accumulate sick leave indefinitely. However, no terminal pay is authorized for unused sick leave for terminating employees.

7. Long-Term Obligations

Long-term debt and other obligations for general government purposes are recorded in the government-wide statement of net position.

For the government-wide financial statements, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method in the government-wide financial statements. Bonds payable are reported net of the applicable bond premium or discount. Issuance costs are reported as deferred bond issue costs and amortized over the term of the related debt. In the governmental fund-level financial statements, bond proceeds are reported as another financing source. Bond premiums and discounts in governmental funds are also recognized currently as other financing sources or uses. Issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures.

8. Fund Balances – Governmental Funds

Fund balances of the governmental funds are classified as follows:

Nonspendable Fund Balance – represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaid insurance) or legally required to remain intact (such as notes receivable or principal of a permanent fund).

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

Restricted Fund Balance – represents amounts that are constrained by external parties, constitutional provisions or enabling legislation.

Committed Fund Balance – represents amounts that can only be used for a specific purpose because of a formal action by the City Commission. Committed amounts cannot be used for any other purpose unless the governing board removes those constraints by taking the same type of formal action. Committed fund balance amounts may be used for other purposes with appropriate due process by the governing board. Commitments are typically done through adoption and amendment of the budget. Committed fund balance amounts differ from restricted balances in that the constraints on their use do not come from outside parties, constitutional provisions, or enabling legislation.

Assigned Fund Balance – represents amounts which the City intends to use for a specific purpose, but that do not meet the criteria to be classified as restricted or committed. Intent may be stipulated by the governing board or by an official or body to which the governing board delegates the authority. Specific amounts that are not restricted or committed in a special revenue, capital projects, debt service or permanent fund are assigned for purposes in accordance with the nature of their fund type or the fund's primary purpose. Assignments within the General Fund convey that the intended use of those amounts is for a specific purpose that is narrower than the general purposes of the City itself.

Unassigned Fund Balance – represents amounts which are unconstrained in that they may be spent for any purpose. Only the General Fund reports a positive unassigned fund balance. Other governmental funds might report a negative balance in this classification because of overspending for specific purposes for which amounts had been restricted, committed or assigned.

When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

9. Transactions Between Funds

Outstanding balances between funds are reported as "due to/from other funds." Nonrecurring or non-routine transfers of equity between funds are accounted for as transfers.

10. Risk Management

The City is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; business interruption, errors and omissions, injuries to employees; employee health benefits, and other claims of various natures. The City participates in the Texas Municipal League Intergovernmental Risk Pool (TML). TML is a self-funded pool operating as a common risk management and insurance program. The agreement for the formation of TML provides that TML will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of acceptable risk levels, however each category of coverage has its own level of reinsurance. There were no significant reductions in commercial insurance coverage in the past fiscal year and settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years.

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

11 Use of Estimates

The preparation of financial statements in conformity with GAAP requires the use of management's estimates. Accordingly, actual results could differ from those estimates.

2. COMPLIANCE AND ACCOUNTABILITY

A. Finance-Related Legal and Contractual Provisions

In accordance with GASB Statement No. 38, "Certain Financial Statement Note Disclosures", a violation of finance-related legal and contractual provisions is reported below, along with the action taken to address the violation.

- For the year ended September 30, 2014, the City overexpended the General Fund in three functional areas (see Exhibit A-11). The City will be more diligent in monitoring its actual expenditures compared to the City's adopted budget in future years.

B. Deficit Fund Balance or Fund Net Position of Individual Funds

As of September 30, 2014, there were no funds with a deficit fund balance or deficit net position.

3. DEPOSITS AND INVESTMENTS

A. Deposits

All of the City's demand and time depository accounts are held in local banking institutions. At September 30, 2014, the carrying amount of the City's deposits (cash and interest-bearing savings accounts included in temporary investments) was \$4,287,654 and the bank balance was \$4,496,223, including fiduciary accounts. The City's cash deposits at September 30, 2014, and during the year ended September 30, 2014, were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name.

All of the BDC's demand and time depository accounts are held in local banking institutions. At September 30, 2014, the carrying amount of the Corporation's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$308,785 and the bank balance was \$413,019. The Corporation's cash deposits at September 30, 2014, and during the year ended September 30, 2014, were entirely covered by FDIC insurance.

B. Investments

The City is required by Government Code Chapter 2256, The Public Funds Investment Act (Act) to adopt, implement, and publicize an investment policy. That policy must be written, primarily emphasize safety of principal and liquidity; address investment diversification, yield, maturity and the quality and capability of investment management; include a list of the types of authorized investments in which the investing entity's funds may be invested, and the maximum allowable stated maturity of any individual investment owned by the entity.

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2014

3. DEPOSITS AND INVESTMENTS (CONT'D.)

The Act requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the financial statements disclosed that in the areas of investment practices, management reports, and establishment of appropriate policies, the City adhered to the requirements of the Act. Additionally, investment practices of the City were in accordance with local policies.

The Act determines the types of investments which are allowable for the City. These include, with certain restrictions, (1) obligations of the U S Treasury, certain U S agencies, and the State of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, and (10) common trust funds

The City's investments at September 30, 2014, are shown below:

<u>Investment or Investment Type</u>	<u>Weighted Maturity (Days)</u>	<u>Fair Value</u>
Money market and savings accounts	1	<u>\$2,841,618</u>

The BDC's investments at September 30, 2014 are shown below:

<u>Investment or Investment Type</u>	<u>Weighted Maturity (Days)</u>	<u>Fair Value</u>
Money market accounts	1	<u>\$177,788</u>

C Analysis of Specific Deposit and Investment Risks

GASB Statement No 40 requires a determination as to whether the City was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures

1 Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At year end, the City was not significantly exposed to credit risk.

2. Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the City's name

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2014

3. DEPOSITS AND INVESTMENTS (CONT'D.)

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the City's name.

At year end, the City was not exposed to custodial credit risk.

3. Concentration of Credit Risk

This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year end, the City was not exposed to concentration of credit risk.

4. Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. At year end, the City was not exposed to interest rate risk.

5. Foreign Currency Risk

This is the risk that exchange rates will adversely affect the fair value of an investment. At year end, the City was not exposed to foreign currency risk.

D. Investment Accounting Policy

The City's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes. Nonnegotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.

4. RECEIVABLES

Receivables and related allowances for uncollectibles consisted of the following items on September 30, 2014:

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2014

4. RECEIVABLES (CONT'D.)

	<u>Gross</u> <u>Receivable</u>	<u>Allowance</u>	<u>Net</u> <u>Receivable</u>
General Fund			
Ambulance	\$ 855,058	\$535,362	\$ 319,696
Property taxes	157,681	54,912	102,769
Sales taxes	325,250	-	325,250
Franchise fees	66,673	-	66,673
Other	6,265	-	6,265
Other Governmental Funds.			
Hotel occupancy taxes	37,610	-	37,610
Other	2,440	-	2,440
Utility Fund			
Customers	1,158,037	668,490	489,547
Property taxes	2,530	2,518	12

The City expects to collect substantially all of the net receivables within one year, except for property taxes. The City anticipates collecting \$24,000 of the property tax receivable within one year, which is similar to the current year.

5. CAPITAL ASSETS

Capital asset activity for governmental activities for the year ended September 30, 2014 was as follows:

Governmental activities.

	<u>Beginning</u> <u>Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u> <u>Balances</u>
Capital assets not being depreciated.				
Land	\$ 981,029	\$ -	\$ -	\$ 981,029
Construction in progress	-	<u>12,972</u>	-	<u>12,972</u>
Total capital assets not being depreciated	<u>981,029</u>	<u>12,972</u>	-	<u>994,001</u>
Capital assets being depreciated				
Buildings and improvements	2,274,550	-	-	2,274,550
Infrastructure	2,230,501	-	-	2,230,501
Equipment, furniture, fixtures, etc.	1,974,712	50,807	86,535	1,938,984
Vehicles	<u>2,470,642</u>	<u>204,314</u>	<u>140,425</u>	<u>2,534,531</u>
Total capital assets being depreciated	<u>8,950,405</u>	<u>255,121</u>	<u>226,960</u>	<u>8,978,566</u>
Less accumulated depreciation for:				
Buildings and improvements	679,836	53,885	-	733,721
Infrastructure	66,871	44,606	-	111,477
Equipment, furniture, fixtures, etc.	1,063,926	166,122	86,534	1,143,514
Vehicles	<u>1,494,174</u>	<u>182,152</u>	<u>138,954</u>	<u>1,537,372</u>
Total accumulated depreciation	<u>3,304,807</u>	<u>446,765</u>	<u>225,488</u>	<u>3,526,084</u>
Total capital assets being depreciated, net	<u>5,645,598</u>	<u>(191,644)</u>	<u>1,472</u>	<u>5,452,482</u>
Governmental activities capital assets, net	<u>\$6,626,627</u>	<u>(\$178,672)</u>	<u>\$ 1,472</u>	<u>\$6,446,483</u>

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2014

5. CAPITAL ASSETS (CONT'D.)

Depreciation expense was charged to departments as follows:

General Government	\$ 19,639
Public Safety	285,514
Public Works	72,778
Cemetery and Parks	<u>49,493</u>
	<u>\$427,424</u>

Business-type activities:

	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets not being depreciated:				
Land	\$ 721,690	\$ -	\$ -	\$ 721,690
Construction in progress	<u>13,473</u>	<u>-</u>	<u>13,473</u>	<u>-</u>
Total capital assets not being depreciated	<u>735,163</u>	<u>-</u>	<u>13,473</u>	<u>721,690</u>
Capital assets being depreciated:				
Buildings and improvements	28,071,258	118,438	-	28,189,696
Equipment, furniture, fixtures, etc.	1,261,046	-	-	1,261,046
Vehicles	<u>302,595</u>	<u>33,243</u>	<u>19,342</u>	<u>316,496</u>
Total capital assets being depreciated	<u>29,634,899</u>	<u>151,681</u>	<u>19,342</u>	<u>29,767,238</u>
Less accumulated depreciation for:				
Buildings and improvements	9,493,736	624,116	-	10,117,852
Equipment, furniture, fixtures, etc.	859,857	60,176	-	920,033
Vehicles	<u>230,644</u>	<u>62,560</u>	<u>19,342</u>	<u>273,862</u>
Total accumulated depreciation	<u>10,584,237</u>	<u>746,852</u>	<u>19,342</u>	<u>11,311,747</u>
Total capital assets being depreciated, net	<u>19,050,662</u>	<u>(595,171)</u>	<u>-</u>	<u>18,455,491</u>
Business-type activities capital assets, net	<u>\$19,785,825</u>	<u>(\$595,171)</u>	<u>\$13,473</u>	<u>\$19,177,181</u>

Depreciation expense was charged to departments as follows:

Business-type activities:	
Water	\$428,662
Sewer	282,137
Sanitation	<u>2,811</u>
	<u>\$713,610</u>

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2014

5. CAPITAL ASSETS (CONT'D.)

Business Development Corporation:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Capital assets not being depreciated:				
Land	\$ 99,092	\$ -	\$ -	\$ 99,092
Website development (in progress)	<u>11,244</u>	<u>-</u>	<u>-</u>	<u>11,244</u>
Total capital assets not being depreciated	<u>110,336</u>	<u>-</u>	<u>-</u>	<u>110,336</u>
Capital assets being depreciated:				
Buildings and improvements	585,149	-	-	585,149
Equipment, furniture, fixtures, etc.	<u>30,386</u>	<u>-</u>	<u>15,048</u>	<u>15,338</u>
Total capital assets being depreciated	<u>615,535</u>	<u>-</u>	<u>15,048</u>	<u>600,487</u>
Less accumulated depreciation for:				
Buildings and improvements	94,835	24,113	-	118,948
Equipment, furniture, fixtures, etc.	<u>26,615</u>	<u>1,131</u>	<u>15,048</u>	<u>12,698</u>
Total accumulated depreciation	<u>121,450</u>	<u>25,244</u>	<u>15,048</u>	<u>131,646</u>
Total capital assets being depreciated, net	<u>494,085</u>	<u>(25,244)</u>	<u>-</u>	<u>468,841</u>
BDC capital assets, net	<u>\$604,421</u>	<u>(\$25,244)</u>	<u>\$ -</u>	<u>\$579,177</u>

6. INTERFUND BALANCES AND ACTIVITY

A. Due To and From Other Funds

Balances due to and due from other funds at September 30, 2014 consisted of the following

<u>Due to Fund</u>	<u>Due From Fund</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	Other Governmental Funds	\$ 24,894	Short-term borrowings
General Fund	Enterprise Fund	3,491	Short-term borrowings
Other Governmental Funds	Other Governmental Funds	542	Short-term borrowings
Other Governmental Funds	General Fund	18,363	Short-term borrowings
Enterprise Fund	General Fund	3,626	Short-term borrowings
Enterprise Fund	Internal Service Funds	<u>948,668</u>	Long-term borrowings
	Total	<u>\$999,584</u>	

All amounts are scheduled to be repaid within one year, except for the Enterprise Fund's borrowing from the Internal Service Fund. As of the date of the audit report, there are no documented items for the repayment or the interest rate for the long-term borrowing.

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2014

6. INTERFUND BALANCES AND ACTIVITY (CONT'D.)

B. Transfers To and From Other Funds

Transfers to and from other funds at September 30, 2014 consisted of the following:

<u>Transfers To</u>	<u>Transfers From</u>	<u>Amount</u>	<u>Reason</u>
General Fund	Electric Trust Principal	\$ 13,843	Interest transfer
General Fund	Other Governmental Funds	10,000	Main Street project
General Fund	Other Governmental Funds	49,750	Cemetery maintenance
General Fund	Other Governmental Funds	35,573	Aquatics center donations
General Fund	Enterprise Fund	1,518,835	Payment in lieu of taxes
Other Governmental Funds	General Fund	12,973	Grant expenditures
Enterprise Fund	General Fund	<u>967</u>	Payment in lieu of taxes
Total		<u>\$1,641,941</u>	

7. LONG-TERM OBLIGATIONS

A. Long-term Obligation Activity

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the period ended September 30, 2014, are as follows

	<u>Beginning</u> <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u> <u>Balance</u>	<u>Amount</u> <u>Due Within</u> <u>One Year</u>
<u>Governmental Activities:</u>					
Certificates of obligation	\$1,270,000	\$ -	\$ 45,000	\$1,225,000	\$ 50,000
Capital leases	1,020,193	-	198,077	822,116	201,997
Notes payable	489,186	121,160	23,035	587,311	492,898
Compensated absences *	<u>273,703</u>	<u>375,167</u>	<u>356,932</u>	<u>291,938</u>	<u>233,551</u>
Total governmental activities	<u>\$3,053,082</u>	<u>\$496,327</u>	<u>\$ 623,044</u>	<u>\$2,926,365</u>	<u>\$ 978,446</u>
<u>Business-type Activities:</u>					
Revenue bonds	\$8,445,000	\$ -	\$ 940,000	\$7,505,000	\$ 965,000
Premium on revenue bonds	144,744	-	6,430	138,314	-
Capital leases	70,527	-	28,600	41,927	25,009
Notes payable	237,000	44,480	29,030	252,450	34,905
Compensated absences *	<u>88,001</u>	<u>154,929</u>	<u>166,012</u>	<u>76,918</u>	<u>46,151</u>
Total business-type activities	<u>\$8,985,272</u>	<u>\$199,409</u>	<u>\$1,170,072</u>	<u>\$8,014,609</u>	<u>\$1,071,065</u>
<u>Business Development Corporation</u>					
Notes payable	\$2,574,639	\$ -	\$ 686,056	\$1,888,583	\$ 141,690
Capital lease	<u>2,834</u>	<u>-</u>	<u>1,968</u>	<u>866</u>	<u>866</u>
Total BDC	<u>\$2,577,473</u>	<u>\$ -</u>	<u>\$ 688,024</u>	<u>\$1,889,449</u>	<u>\$ 142,556</u>

* - Other long-term liabilities

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2014

7. LONG-TERM OBLIGATIONS (CONT'D.)

The funds typically used to liquidate other long-term liabilities in the past are as follows.

<u>Liability</u>	<u>Activity Type</u>	<u>Fund</u>
Compensated absences	Governmental	General Fund
Compensated absences	Business-type	Enterprise Fund

B Outstanding Bonds

At September 30, 2014, the City had the following bonds outstanding:

Governmental Activities:

Combination Tax and Revenue Certificates of Obligation, Series 2005 due through 2030 with interest rates ranging from 3.75% to 6.75%	<u>\$1,225,000</u>
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Business-type Activities:

General Obligation Refunding Bonds, Series 2004 due through 2016 with interest rates from 3.50% to 4.25%	920,000
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Tax and Waterworks and Sewer System Surplus Revenue Certificates of Obligation, Series 2009 due through 2036 with interest rates ranging from 3.00% to 5.50%	3,065,000
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General Obligation Refunding Bonds, Series 2010 due through 2020 with interest rates from 2.00% to 3.00%	1,955,000
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General Obligation Refunding Bonds, Series 2012 due through 2023 with interest rates from 2.00% to 3.00%	<u>1,565,000</u>
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Total business-type activities	<u>7,505,000</u>
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Total all bonds	<u>\$8,730,000</u>
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C Debt Service Requirements on Long-Term Bonds

Debt service requirements on long-term bonds at September 30, 2014 are as follows.

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 50,000	\$ 50,284	\$ 100,284
2016	55,000	48,315	103,315
2017	55,000	46,253	101,253
2018	60,000	44,021	104,021
2019	60,000	41,621	101,621
2020-2024	360,000	166,419	526,419
2025-2029	475,000	77,892	552,892
2030	<u>110,000</u>	<u>2,406</u>	<u>112,406</u>
Totals	<u>\$1,225,000</u>	<u>\$477,211</u>	<u>\$1,702,211</u>

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2014

7. LONG-TERM OBLIGATIONS (CONT'D.)

<u>Year Ending September 30,</u>	<u>Business-type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 965,000	\$ 290,663	\$ 1,255,663
2016	995,000	258,000	1,253,000
2017	610,000	222,069	832,069
2018	630,000	203,975	833,975
2019	640,000	185,350	825,350
2020-2024	1,500,000	725,808	2,225,808
2025-2029	735,000	498,827	1,233,827
2030-2034	960,000	267,576	1,227,576
2035-2036	470,000	26,401	496,401
Totals	<u>\$7,505,000</u>	<u>\$2,678,669</u>	<u>\$10,183,669</u>

D. Capital Leases

Commitments under capitalized lease agreements for facilities and equipment provide for minimum future lease payments as of September 30, 2014 as follows.

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>
2015	\$231,358	\$ 26,067
2016	180,005	8,729
2017	156,141	8,729
2018	43,625	-
2019	43,625	-
2020-2024	218,126	-
2025-2026	85,700	-
Total minimum lease payments	958,580	43,525
Less amount representing interest	(136,464)	(1,598)
Present value of minimum lease payments	<u>\$822,116</u>	<u>\$ 41,927</u>

The effective interest rates on capital leases are 2 12% to 4 75%

Following is a summary of property held subject to capital lease

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Machinery and equipment	\$ 337,669	\$ 75,551
Vehicles	1,149,335	78,646
Less accumulated depreciation	(522,541)	(129,350)
Net	<u>\$ 964,463</u>	<u>\$ 24,847</u>

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2014

7. LONG-TERM OBLIGATIONS (CONT'D.)

E Notes Payable

The City has notes payable at September 30, 2014 as follows:

Governmental Activities:

Note payable to the Waggoner National Bank to finance the balance of the aquatics center. The note is due in monthly principal payments of \$2,964 plus interest at 3.75% per annum through February 2015 when the balance of the principal and accrued interest is due. The note is unsecured.	<u>\$471,851</u>
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Note payable to the Bank of the West to finance the purchase of an ambulance. The note is due in monthly principal payments of \$2,166 plus interest at 2.74% per annum through July 1, 2019. The note is secured by the ambulance.	<u>115,460</u>
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Total governmental activities	<u>587,311</u>
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Business-type Activities:

Note payable to the Bank of the West to finance various equipment purchases. The note is due in monthly payments of \$666 of principal and interest at 2.99% per annum through September 15, 2018. The note is secured by a mosquito sprayer, computer hardware and software, and 14 portable radio systems.	<u>30,063</u>
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Note payable to the Waggoner National Bank to finance the water exploration. The note is due in annual principal payments of \$20,000 plus interest at 3.75% per annum in September 2014 and 2015 with the balance of the principal and accrued interest due in September 2016. The note is unsecured.	<u>180,000</u>
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Note payable to the Bank of the West to finance various equipment purchases. The note is due in monthly payments of \$795 of principal and interest at 2.74% per annum through July 1, 2019. The note is secured by fire SCBA gear and computer software and accessories.	<u>42,387</u>
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Total business-type activities	<u>252,450</u>
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Total all notes payable	<u>\$839,761</u>
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The debt service requirements on the notes payable at September 30, 2014 are as follows:

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2014

7. LONG-TERM OBLIGATIONS (CONT'D.)

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$492,898	\$ 10,602	\$503,500
2016	23,666	2,329	25,995
2017	24,338	1,656	25,994
2018	25,023	971	25,994
2019	<u>21,386</u>	<u>272</u>	<u>21,658</u>
Totals	<u>\$587,311</u>	<u>\$15,830</u>	<u>\$603,141</u>

<u>Year Ending September 30,</u>	<u>Business-type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 34,905	\$ 8,677	\$ 43,582
2016	176,085	7,548	183,633
2017	16,562	972	17,534
2018	17,047	486	17,533
2019	<u>7,851</u>	<u>100</u>	<u>7,951</u>
Totals	<u>\$252,450</u>	<u>\$17,783</u>	<u>\$270,233</u>

F. Combined Debt Service Requirements

Debt service requirements on all long-term debt at September 30, 2014 are as follows:

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 744,895	\$ 90,247	\$ 835,142
2016	236,583	70,675	307,258
2017	218,360	63,372	281,732
2018	115,705	56,964	172,669
2019	113,297	53,335	166,632
2020-2024	539,753	204,792	744,545
2025-2029	555,834	82,758	638,592
2030	<u>110,000</u>	<u>2,406</u>	<u>112,406</u>
Totals	<u>\$2,634,427</u>	<u>\$624,549</u>	<u>\$3,258,976</u>

<u>Year Ending September 30,</u>	<u>Business-type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$1,024,914	\$ 300,398	\$ 1,325,312
2016	1,179,455	265,907	1,445,362
2017	635,110	223,222	858,332
2018	647,047	204,461	851,508
2019	647,851	185,450	833,301
2020-2024	1,500,000	725,808	2,225,808
2025-2029	735,000	498,827	1,233,827
2030-2034	960,000	267,576	1,227,576
2035-2036	<u>470,000</u>	<u>26,401</u>	<u>496,401</u>
Totals	<u>\$7,799,377</u>	<u>\$2,698,050</u>	<u>\$10,497,427</u>

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2014

7. LONG-TERM OBLIGATIONS (CONT'D.)

G. Continuing Disclosure

The City has entered into a continuing disclosure undertaking to provide Annual Reports and Material Event Notices to the State Information Depository of Texas, which is the Municipal Advisory Council. This information is required under SEC Rule 15c2-12 to enable investors to analyze the financial condition and operations of the City.

H. BDC Debt

The BDC has notes payable outstanding at September 30, 2014 as follows

The note payable to the Texas Leverage Fund (#1) is payable in monthly installments of \$6,215 including interest at 3.25% per annum and is secured by sales tax receipts collected by BDC. The note matures in January 2025 \$ 662,658

The note payable to the Texas Leverage Fund (#2) is payable in monthly installments of \$10,533 including interest at 3.25% per annum and is secured by sales tax receipts collected by BDC. The note matures in June 2026 1,225,925

Total \$1,888,583

The debt service requirements on the notes payable at September 30, 2014 are as follows.

<u>Year Ending September 30,</u>	<u>BDC Notes Payable</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 141,690	\$ 59,281	\$ 200,971
2016	146,365	54,607	200,972
2017	151,193	49,778	200,971
2018	156,181	44,791	200,972
2019	161,333	39,638	200,971
2020-2024	890,096	114,761	1,004,857
2025-2029	<u>241,725</u>	<u>6,477</u>	<u>248,202</u>
Totals	<u>\$1,888,583</u>	<u>\$369,333</u>	<u>\$2,257,916</u>

Commitments under capitalized lease agreements for facilities and equipment provide for minimum future lease payments as of September 30, 2014 as follows

<u>Year Ending September 30,</u>	<u>Component Unit</u>
2015	\$ 882
Total minimum lease payments	882
Less amount representing interest	(16)
Present value of minimum lease payments	<u>\$ 866</u>

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2014

8. NET POSITION AND FUND BALANCES

A portion of the City's net position and funds have restrictions and commitments. The details to each are as follows:

Net Position.	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
Restricted for:				
Debt service	\$ -	\$257,638	\$ 257,638	\$ -
Capital projects	-	366	366	-
Public improvements				
Expendable	22,392	-	22,392	-
Nonexpendable	2,841,618	-	2,841,618	-
Perpetual care:				
Nonexpendable	213,205	-	213,205	-
Municipal court building security	18,541	-	18,541	-
Municipal court technology	29,786	-	29,786	-
Public, education, and government access	42,644	-	42,644	-
Grants	4,688	-	4,688	-
Public safety	30,439	-	30,439	-
Aquatics center	42,322	-	42,322	-
Christmas decorations	6,929	-	6,929	-
Tourism	<u>235,751</u>	<u>-</u>	<u>235,751</u>	<u>-</u>
Total restricted net assets	<u>\$3,488,315</u>	<u>\$258,004</u>	<u>\$3,746,319</u>	<u>\$ -</u>
 Fund Balances.				
	Governmental Funds			
	General	Electric Trust Principal	Other Governmental	Total
Restricted for:				
Public improvements	\$ 22,392	\$2,841,618	\$ -	\$2,864,010
Municipal court building security	18,541	-	-	18,541
Municipal court technology	29,786	-	-	29,786
Public, education, and government access	42,644	-	-	42,644
Grants	-	-	4,688	4,688
Public safety	-	-	30,439	30,439
Aquatics center	-	-	42,322	42,322
Christmas decorations	-	-	6,929	6,929
Tourism	-	-	235,751	235,751
Perpetual care	<u>-</u>	<u>-</u>	<u>213,205</u>	<u>213,205</u>
Total restricted fund balance	<u>\$ 113,363</u>	<u>\$2,841,618</u>	<u>\$ 533,334</u>	<u>\$3,488,315</u>
 Committed for:				
Main Street	<u>\$ 95,680</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 95,680</u>

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2014

9. SELF-FUNDED WORKERS COMPENSATION

During the fiscal year ended September 30, 1992, the City began a self-insurance program for workmen's compensation. The Workmen's Compensation Fund, an internal service fund, was established for this program. Under current arrangements, this program is administered by the Texas Municipal League. Stop-loss insurance is carried to cover claims in excess of \$250,000 in the aggregate. During the fiscal year ended September 30, 2014, the Workmen's Compensation Fund expended \$41,616 for claims, stop-loss insurance premiums, and administrative costs. During the same period, the Fund did not receive any charges and fees from the General Fund, the Enterprise Fund or the BDC. Settled claims have not exceeded commercial coverage to date.

When payments are received from the General and Enterprise Funds and the BDC, they are based on estimates of the amounts needed to pay current and prior claims and other expenses, and to establish a reserve for catastrophic losses. The estimates are based on the City's historical cost data. As of September 30, 2014, the reserve was \$47,662. The claims payable of \$5,393 are based on the requirements of GASB Statement Number 10 which requires that a liability for claims be reported if information available prior to issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the claims liability amounts in the fiscal years ended September 30, 2013 and 2014 were.

	<u>Beginning of Year Liability</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claims and Expenses Paid</u>	<u>Balance at Year End</u>
FYE September 30, 2013	<u>\$ 3,790</u>	<u>\$26,251</u>	<u>\$14,722</u>	<u>\$15,319</u>
FYE September 30, 2014	<u>\$15,319</u>	<u>\$ 3,290</u>	<u>\$13,216</u>	<u>\$ 5,393</u>

10. PENSION PLAN

Texas Municipal Retirement System

Plan Description

The City provides pension benefits for all of its full-time employees through a nontraditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS.

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS, the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained by writing TMRS, P O. Box 149153, Austin, TX 78714-9153 or by calling 800-924-8677; in addition, the report is available on TMRS' website at www.TMRS.org

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2014

10. PENSION PLAN (CONT'D.)

Plan provisions for the City were as follows

	<u>Plan Year 2013</u>	<u>Plan Year 2014</u>
Employee deposit rate	7%	7%
Matching ratio (City to employee)	2.0 to 1	2.0 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age / years of service)	60/5, 0/25	60/5, 0/25
Updated Service Credit	100% Repeating, Transfers	100% Repeating, Transfers
Annuity Increase (to retirees)	70% of CPI Repeating	70% of CPI Repeating

Contributions

Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the entry age normal cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

The City contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect.

The required contribution rates for fiscal year 2014 were determined as part of the December 31, 2011 and 2012 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2013, also follows:

Actuarial Assumptions

	<u>12/31/2011</u>	<u>12/31/2012</u>	<u>12/31/2013</u>
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Entry Age Normal
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
GASB 25 Equivalent Single Amortization Period	26 3 years, closed period	25 3 years, closed period	23 0 years, closed period
Amortization Period of New Gains/Losses	30 years	30 years	30 years
Asset Valuation Method	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market
Investment Rate of Return	7.0%	7.0%	7.0%
Projected Salary Increases	Varies by age and service	Varies by age and service	Varies by age and service
Includes inflation at Cost-of-Living adjustments	3.00% 2.1%	3.00% 2.1%	3.00% 2.1%

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2014

10. PENSION PLAN (CONT'D.)

Funded Status and Funding Progress

Actuarial Valuation Date	12/31/13
Actuarial Value of Assets	\$15,486,640
Actuarial Accrued Liability (AAL)	\$22,171,455
Percentage Funded	69.8%
Unfunded Actuarial Accrued Liability (UAAL)	\$6,684,815
Annual Covered Payroll	\$4,120,112
UAAL as a Percentage of Covered Payroll	162.2%
Net Pension Obligation (NPO) at the Beginning of the Period	-0-
Annual Pension Cost:	
Annual Required Contribution (ARC)	\$713,057
Interest on NPO	-0-
Adjustment to the ARC	-0-
Annual Pension Cost	<u>\$713,057</u>
Percentage of Annual Pension Costs Contributed	100%
Contributions Made	\$745,693
Increase in NPO	-0-
NPO At the End of the Period	-0-
Two preceding years	
2012:	
Annual Pension Cost	\$713,057
Percentage of Annual Pension Costs Contributed	100%
NPO At the End of the Period	-0-
2011:	
Annual Pension Cost	\$638,194
Percentage of Annual Pension Costs Contributed	100%
NPO At the End of the Period	-0-

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2014

10. PENSION PLAN (CONT'D.)

Actuarial calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation, and reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial valuation of assets. The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multi-year trend information about whether the actuarial valuation of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

11. HEALTH CARE COVERAGE

On March 11, 1992, the City began a self-insurance medical program through establishment of the Employee Benefits Trust Fund, an internal service fund. A contract is in effect with Blue Cross Blue Shield of Texas for the administration of the fund. Stop-loss insurance coverage is carried under which the Employee Benefits Trust Fund pays the first \$55,000 of medical expenses per covered person up to an aggregate amount of \$728,393 per year. The insurance provider pays amounts in excess of the aforementioned. Settled claims have not exceeded commercial insurance coverage as of September 30, 2014. Group life insurance premiums are also paid by the Employee Benefits Trust Fund. During the fiscal year ended September 30, 2014, \$1,049,960 was expended for health benefits, insurance premiums and administrative costs. Charges and fees for the same period amounted to \$838,389, including \$530,461 from the General Fund, \$139,007 from the Enterprise Fund, \$161,571 from employee payroll deductions, and \$7,350 from the Business Development Corporation of Vernon. These amounts were recorded as current expenditures in the charged funds and component unit.

Both the General and Enterprise Funds and the Business Development Corporation of Vernon participate in the self-insurance program and make payments to the internal service fund based on estimates of the amounts needed to pay current and prior year claims and other expenses, and to establish a reserve for catastrophic losses. The estimates are derived from the City's historical cost experience. At September 30, 2014, the reserve was \$1,039,732.

The claims liability of \$57,592 is based on the requirements of GASB Statement Number 10 which requires that a liability for claims be reported if information available prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

Changes in the claims liability amounts in the fiscal years ended September 30, 2013 and 2014 were

	<u>Beginning of Year Liability</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claims and Expenses Paid</u>	<u>Balance at Year End</u>
FYE September 30, 2013	<u>\$29,002</u>	<u>\$ 729,807</u>	<u>\$742,589</u>	<u>\$16,220</u>
FYE September 30, 2014	<u>\$16,220</u>	<u>\$1,007,937</u>	<u>\$966,565</u>	<u>\$57,592</u>

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2014

12. COMMITMENTS AND CONTINGENCIES

A. Litigation

No reportable litigation was pending against the City at September 30, 2014

B. Federal and State Grants – Compliance Audits

The City participates in grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies, therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable may be impaired. In the opinion of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying basic financial statements for such contingencies.

C. Unfunded Bonds

The City has the ability to draw down up to \$680,000 from the Tax and Waterworks and Sewer System Surplus Revenue Certificates of Obligation, Series 2000

13. CLOSURE AND POSTCLOSURE CARE COST

A 1991 U S Environmental Protection Agency (EPA) ruling, "Solid Waste Facility Criteria", established closure requirements for municipal solid waste landfills. The EPA ruling also imposes thirty-year postclosure care requirements for landfills accepting solid waste after April 9, 1994. As a result, landfill operators are required to perform certain closing functions and postclosure monitoring and maintenance functions. The Governmental Accounting Standards Board has issued its Statement Number 18 to establish accounting principles for postclosure monitoring and maintenance costs resulting from the EPA ruling.

The City of Vernon, Texas operated a municipal solid waste landfill which stopped accepting solid waste on April 1, 1994. Final cover and capping was completed shortly thereafter, using existing personnel and equipment. Because the landfill was closed prior to April 9, 1994, the City is exempted from the postclosure and maintenance and monitoring requirements of the EPA ruling. Accordingly, these financial statements include no provision for related costs contemplated by GASB Statement Number 18.

14. NEW PRONOUNCEMENT

In June 2012, GASB issued GASB Statement No. 68 to amend GASB Statements 27 and 50. The statement is effective for fiscal years beginning after June 15, 2014 and addresses accounting and financial reporting for pensions that are provided to the employees of state and local government employers. This statement will affect the City's reporting of its governmental activities on the government-wide statements as of and for the year ended September 30, 2015, although the impact of applying the statement is unknown.

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2014

15. GOING CONCERN CONSIDERATION

At September 30, 2014, the General Fund had \$141,698 of unrestricted cash and cash equivalents compared to \$0 at September 30, 2013. Additionally, the General Fund's total fund balance was \$393,936, of which \$113,363 was restricted, \$95,680 was committed, and \$184,893 was unassigned. During the year ended September 30, 2014, the General Fund's expenditures exceeded revenues by \$1,459,105. Transfers in of \$1,628,001, mostly from the Utility Enterprise Fund, were made to cover the large deficit and create a positive increase in fund balance of \$276,116 for the year.

At September 30, 2014, the Utility Enterprise Fund had \$44,186 of unrestricted cash and cash equivalents compared to \$177,372 at September 30, 2013 after the Utility Enterprise Fund borrowed \$948,668 from the City's Employee Benefit Trust. Additionally, the Utility Enterprise Fund's total net position was \$10,784,931, of which \$11,239,490 was invested in net capital assets, \$258,004 was restricted, (\$712,563) was unrestricted. During the year ended September 30, 2014, the Utility Enterprise Fund generated \$913,307 of income before transfers. However, transfers out of \$1,518,835 were made to the General Fund as noted above. In summary, the net position decreased \$604,561 during the year ended September 30, 2014.

The City's ability to continue operations is dependent on its ability to increase or maintain revenues and limit expenditures to obtain sufficient cash flow to fund operations, including servicing existing debt. The City's plans for the year ending September 30, 2015 for the General and Utility Funds are as follows:

General Fund

For 2014-15, the City adopted a budget that would add \$172,652 to fund balance by September 30, 2015. This was accomplished with a property tax rate increase of \$ 0192 per \$100 per taxable valuation which should generate 5.33% more property tax revenues, elimination of four positions, limited capital purchases and a reduction in transfers from the City's Utility Enterprise Fund.

Utility Enterprise Fund

Furthermore, in the Utility Enterprise Fund, the City increased water rates by \$8 per month and sewer rates by \$5.25 per month. These increases should generate over \$600,000 in additional revenues in 2014-15. With the planned reduction in transfers to the General Fund, it is estimated the Utility Enterprise Fund will add approximately \$1,050,000 to its net position by September 30, 2015.

In addition to the changes made above, the City will continue to monitor its expenditures and future cuts may be necessary to rebuild its fund balance and net position to appropriate levels. The accompanying financial statements do not include any adjustments that might result from the outcome of these uncertainties.

REQUIRED SUPPLEMENTARY INFORMATION

THE CITY OF VERNON, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS - TEXAS MUNICIPAL RETIREMENT SYSTEM

(1)	(2)	(3)	(4)	(5)	(6)	
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Percentage Funded (1) ÷ (2)	Unfunded Actuarial Accrued Liability (UAAL) (2) - (1)	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll (4) ÷ (5)
12/31/11	\$ 13,193,445	\$ 18,727,045	70.5%	\$ 5,533,600	\$ 3,976,783	139.1%
12/31/12	14,269,913	19,813,902	72.0%	5,543,989	4,115,037	134.7%
12/31/13	15,486,640	22,171,455	69.8%	6,684,815	4,120,112	162.2%