

**THE CITY OF VERNON, TEXAS**

**ANNUAL FINANCIAL REPORT**

**FOR THE YEAR ENDED SEPTEMBER 30, 2010**

The City of Vernon, Texas  
Annual Financial Report  
For The Year Ended September 30, 2010

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*Financial Section*



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## **Independent Auditor's Report on Financial Statements**

Honorable Mayor and  
Members of the 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 as of and for the year ended September 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of The City of Vernon, Texas' management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the City's component unit, the Business Development Corporation of Vernon (BDC). Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to amounts included for BDC, is based 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of The City of Vernon, Texas as of September 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison information and the schedule on the Texas Municipal Retirement System identified as Required Supplementary Information in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Respectfully submitted,

*Edgin, Parkman, Fleming & Fleming, PC*

Edgin, Parkman, Fleming & Fleming, PC

February 11, 2011

## 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, 2010. 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 \$21,286,935 (net assets). Of this amount, \$3,609,439 (unrestricted net assets) may be used to meet the City's obligations.
- During the year, the City's total net assets increased by \$400,510.
- The governmental funds reported a fund balance this year of \$5,025,127, which is an increase of \$389,357 in comparison with the prior year amount. \$842,437, or 17% of this total fund balance, is available for spending at the government's discretion (unreserved fund balance).
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$842,437, or 13% of the total General Fund expenditures.

### 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

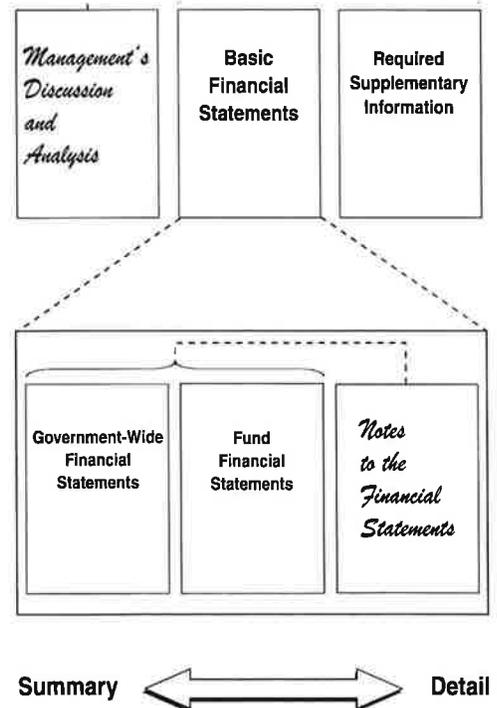


Figure A-2 summarizes the major features of the City's financial statements, including the portion of the City's government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each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

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

<i>Type of Statements</i>	<b>Fund Statements</b>		
	<b>Government-wide</b>	<b>Governmental Funds</b>	<b>Proprietary Funds</b>
<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"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures &amp; changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of revenues, expenses, and changes in net assets</li> <li>• Statement of cash flows</li> </ul>
<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 assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

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

- Over time, increases or decreases in the City's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the City, 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 assets.** The City's combined net assets were \$21,286,935 at September 30, 2010. (See Table A-1)

Table A-1  
City's Net Assets

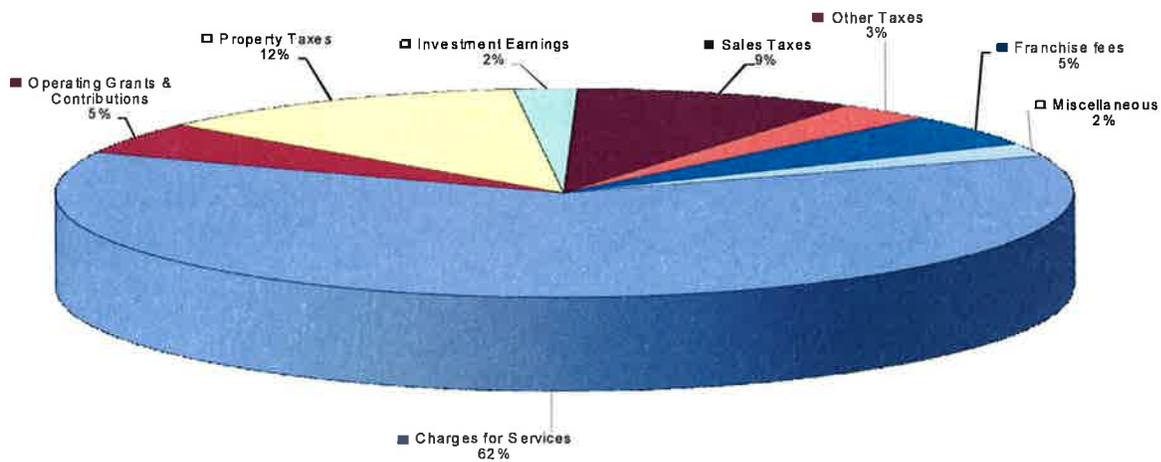
	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Current and other assets	\$ 7,162,212	\$ 6,513,048	\$ 4,141,019	\$ 2,659,972	\$ 11,303,231	\$ 9,173,020
Capital assets, net	4,652,593	4,337,177	19,939,832	18,864,713	24,592,425	23,201,890
Total assets	11,814,805	10,850,225	24,080,851	21,524,685	35,895,656	32,374,910
Long-term liabilities	1,999,797	2,096,256	10,375,031	7,882,381	12,374,828	9,978,637
Other liabilities	932,841	415,009	1,340,614	1,244,050	2,273,455	1,659,059
Total liabilities	2,932,638	2,511,265	11,715,645	9,126,431	14,648,283	11,637,696
Net assets						
Invested in capital assets, net of related debt	2,505,793	2,458,636	8,799,958	10,235,024	11,305,751	12,693,660
Restricted	4,120,912	3,789,494	2,250,833	42,870	6,371,745	3,832,364
Unrestricted	2,255,462	2,090,830	1,353,977	2,120,360	3,609,439	4,211,190
Total net assets	\$ 8,882,167	\$ 8,338,960	\$ 12,404,768	\$ 12,398,254	\$ 21,286,935	\$ 20,737,214

The \$3,609,439 of unrestricted net assets at September 30, 2010 represents resources available to fund the programs of the City next year if sufficient resources are not derived from future resources. The restricted net assets are required to be set aside for long-term debt, public improvements and various other activities.

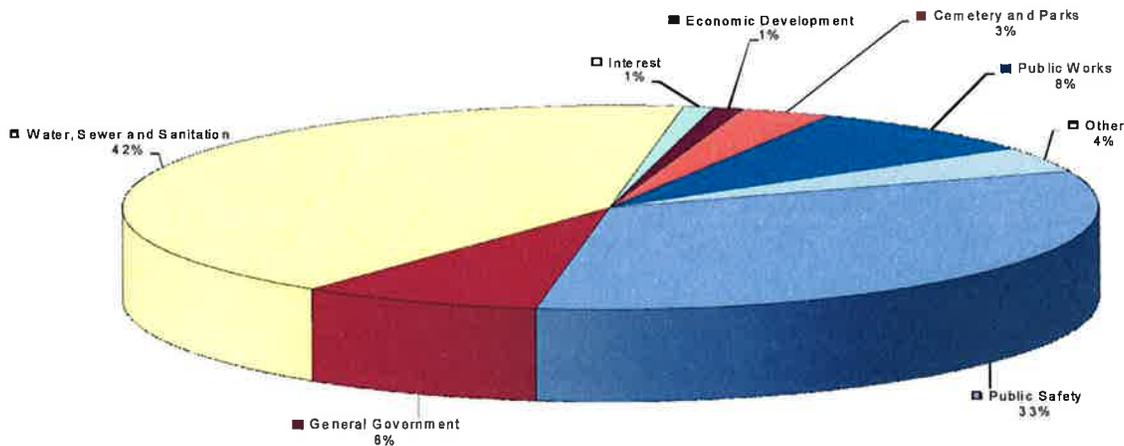
**Changes in net assets.** The City's total revenues, both program and general, were \$11,610,482. A significant portion, 62%, of the City's revenue comes from charges for services. (See Figure A-3.) 9% comes from sales taxes, 12% from property taxes and 5% from franchise fees. Other minor categories combined make up 12% of the City's total revenues.

The total cost of all programs and services was \$11,209,972; 42%, of these costs are for water, sewer and sanitation related expenses. The City's expenses cover a range of services, with 33% related to public safety, 8% for public works and 8% for general government. (See Figure A-4.)

**Figure A-3  
Source of Revenue for Fiscal Year 2010**



**Figure A-4  
Functional Expense for Fiscal Year 2010**



## 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 Assets**

	Governmental		Business-type		Total	
	Activities		Activities			
	2010	2009	2010	2009	2010	2009
<b>Revenues</b>						
Program revenues						
Charges for services	\$ 1,538,758	\$ 1,398,225	\$ 5,665,883	\$ 5,499,040	\$ 7,204,641	\$ 6,897,265
Operating and capital grants	597,972	320,520		90,523	597,972	411,043
General revenues						
Property taxes	1,355,833	1,340,275			1,355,833	1,340,275
Sales taxes	1,044,281	1,097,788			1,044,281	1,097,788
Franchise fees	628,239	725,992			628,239	725,992
Other taxes	392,056	341,132			392,056	341,132
Investment earnings	157,083	144,619	51,263	63,394	208,346	208,013
Gain on sale of capital assets	84,120	19,257			84,120	19,257
Seizure income	715	9,582			715	9,582
Miscellaneous	80,850	129,139	13,429	10,414	94,279	139,553
<b>Total revenues</b>	<b>5,879,907</b>	<b>5,526,529</b>	<b>5,730,575</b>	<b>5,663,371</b>	<b>11,610,482</b>	<b>11,189,900</b>
<b>Expenses</b>						
General government	886,206	677,078			886,206	677,078
Public Safety	3,697,427	3,619,272			3,697,427	3,619,272
Public Works	884,644	863,790			884,644	863,790
Cemetery and Parks	347,167	327,567			347,167	327,567
Other	401,700	441,334			401,700	441,334
Christmas decorations	5,742	5,431			5,742	5,431
Civic and cultural	30,837	41,117			30,837	41,117
Economic development	153,419	135,226			153,419	135,226
Interest	91,628	79,479			91,628	79,479
Water, sewer and sanitation			4,711,202	4,654,583	4,711,202	4,654,583
<b>Total expenses</b>	<b>6,498,770</b>	<b>6,190,294</b>	<b>4,711,202</b>	<b>4,654,583</b>	<b>11,209,972</b>	<b>10,844,877</b>
<b>Transfers</b>	<b>1,162,070</b>	<b>932,873</b>	<b>(1,162,070)</b>	<b>(932,873)</b>	<b>-</b>	<b>-</b>
<b>Increase in net assets</b>	<b>\$ 543,207</b>	<b>\$ 269,108</b>	<b>\$ (142,697)</b>	<b>\$ 75,915</b>	<b>\$ 400,510</b>	<b>\$ 345,023</b>

The most significant fluctuation between years relates to the following:

- Charges for Services increased by \$140,533, which is due to water rate and usage increases.
- Grants increased by \$277,452, due to more aggressive and successful approaches in grant writing.
- Sales Tax decreased by \$53,507 due to local economy unfortunately mirroring national economy.
- Franchise Fees decreased by \$97,753 due to local economy unfortunately mirroring national economy.
- Gain in sale of Capital Assets increased by \$64,863 mostly due to sale of unoccupied City building to Library.
- General Government and Public Safety expenses increased \$209,128 and \$78,155, mostly due to grants.

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 \$6,498,770; however, the amount that our taxpayers paid for these activities through property taxes was only \$1,355,833.
- Some of the cost was paid by those who directly benefited from the programs through charges for services of \$1,538,758.

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

	Total Cost of Services		Net Cost of Services	
	2010	2009	2010	2009
General government	\$ 886,206	\$ 677,078	\$ 617,817	\$ 363,557
Public safety	3,697,427	3,619,272	2,627,178	2,655,322
Public works	884,644	863,790	461,333	634,677
Cemetery and parks	347,167	327,567	170,030	162,640
Economic development	153,419	135,226	1,768	135,226
Subsidies, donations and other	401,700	441,334	361,786	403,194
Christmas decorations	5,742	5,431	(337)	(3,663)
Civic and cultural	30,837	41,117	30,837	41,117
Interest	91,628	79,479	91,628	79,479
<b>Total</b>	<b>\$ 6,498,770</b>	<b>\$ 6,190,294</b>	<b>\$ 4,362,040</b>	<b>\$ 4,471,549</b>

### FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Revenues from governmental funds totaled \$5,679,742, an increase of \$232,454 or 4%. The largest increase was from Grant Revenue, an increase of \$280,467 or 90%. The second largest increase was in Charges for Services, an increase of \$49,195 or 8.5%. Negative revenue pressure was seen in Sales and Franchise Taxes, down by \$77,999 a combined decrease of 4.4% which can be attributed to the recessionary national economy. This downward trend of Sales and Franchise Taxes is not expected to continue.

Expenditures from governmental funds totaled \$6,958,990, an increase of \$195,054 or 3%. The largest increase was in General Government activities, an increase of \$199,076 or 30%. The second largest increase was in Public

Safety, an increase of \$55,460 or 2%. These both are mostly due to increased grant activity. The City has aggressively pursued grants in recent years, and this trend is expected to continue.

Transfers in increased by \$229,197 or 25%. Insufficient transfers were recorded in the prior year, and the correct level is programmed to continue.

### General Fund Budgetary Highlights

Over the course of the year, the City revised its budget. As stated above, Sales and Franchise Taxes fell below expectations due to the overall trend in the national economy. Some budgetary expenses were thus deferred. Almost all departments were under budgeted amounts. The largest amounts of under budget spending came from capital outlay and other miscellaneous expenses.

### CAPITAL ASSETS AND DEBT ADMINISTRATION

#### Capital Assets

At September 30, 2010, the City had invested in a broad range of capital assets totaling \$24,592,425, including land, equipment, buildings, and vehicles. (See Table A-4.)

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

	Governmental		Business-type		Total	
	Activities		Activities			
	2010	2009	2010	2009	2010	2009
Land	\$ 981,029	\$ 981,029	\$ 721,690	\$ 721,690	\$ 1,702,719	\$ 1,702,719
Construction in progress	295,111	31,440	1,635,384		1,930,495	31,440
Buildings and improvements	1,760,663	1,831,213	17,126,241	17,659,317	18,886,904	19,490,530
Equipment, furniture, fixtures	761,267	578,223	354,874	398,838	1,116,141	977,061
Vehicles	854,523	915,272	101,643	84,868	956,166	1,000,140
<b>Total net assets</b>	<b>\$ 4,652,593</b>	<b>\$ 4,337,177</b>	<b>\$ 19,939,832</b>	<b>\$ 18,864,713</b>	<b>\$ 24,592,425</b>	<b>\$ 23,201,890</b>

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

For the City's fiscal year 2011, the City plans capital additions including:

Capital Item	Governmental	Business	Total
3 Police Vehicles (SUV)	\$71,374		\$71,374
Ladder Truck - Fire Dept	540,000		540,000
New Street Paving	20,000		20,000
Street Sander	5,000		\$5,000
Aquatic Center	\$1,500,000		\$1,500,000
Telephone System - Utility Billing		\$6,500	\$6,500
<b>Totals</b>	<b>\$2,136,374</b>	<b>\$6,500</b>	<b>\$2,142,874</b>

## Long-term Obligations

At September 30, 2010, the City had \$13,584,086 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		Business-type		Total	
	Activities		Activities			
	2010	2009	2010	2009	2010	2009
Capital Leases	\$ 746,800	\$ 438,541	\$ 162,992	\$ 149,689	\$ 909,792	\$ 588,230
Certificates of Obligation	1,400,000	1,440,000	-	-	1,400,000	1,440,000
Compensated absences	226,919	217,715	70,493	62,210	297,412	279,925
Revenue Bonds	-	-	10,976,882	8,480,000	10,976,882	8,480,000
<b>Total</b>	<b>\$ 2,373,719</b>	<b>\$ 2,096,256</b>	<b>\$ 11,210,367</b>	<b>\$ 8,691,899</b>	<b>\$ 13,584,086</b>	<b>\$ 10,788,155</b>

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

Appraised value used for the 2010-11 budget preparation was \$355,276,850. This value is up due to new construction values and the reappraisal of existing properties, a positive trend not generally felt in the national economy. The City lowered the tax rate to \$0.370683 from \$0.374244 per one hundred dollar appraisal value. The lower rate is expected to generate revenue equal to that generated in the previous year.

Historically, Sales Tax has been in a consistent upwards trend for the City, with the most recent year not following the trend. The City has taken a conservative budget approach and has not budgeted for increased revenues in the new budget, although the long term forecast is still positive for the City. Budgeted revenue was reduced by \$61,000 or 4.88%.

If these estimates are realized, the City's budgetary General Fund budget is not expected to change appreciably by the close of 2010-2011. General Fund and Enterprise Fund combined were budgeted at a modest 1% increase. General Fund budget increased 1.70% while Enterprise Fund budget decreased 0.38%.

## 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 ASSETS

SEPTEMBER 30, 2010

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
<b>ASSETS</b>				
<i>Cash and cash equivalents</i>	\$ 5,933,476	\$ 981,516	\$ 6,914,992	\$ 763,123
<i>Receivables (net of allowances for uncollectibles)</i>	1,164,357	426,565	1,590,922	
<i>Due from primary government</i>	--	--	--	94,483
<i>Internal balances</i>	(166,578)	166,578	--	--
<i>Other assets</i>	326	450	776	8,653
<i>Escrow deposit</i>	2,000	--	2,000	--
<b>Restricted assets:</b>				
<i>Cash and cash equivalents</i>	211,298	2,394,510	2,605,808	--
<i>Bond issue costs (net of accumulated amortization)</i>	17,333	171,400	188,733	--
<i>Capital assets (net of accumulated depreciation)</i>	4,652,593	19,939,832	24,592,425	560,287
<b>Total assets</b>	<b>11,814,805</b>	<b>24,080,851</b>	<b>35,895,656</b>	<b>1,426,546</b>
<b>LIABILITIES</b>				
<i>Accounts payable</i>	444,246	254,029	698,275	--
<i>Sales tax payable</i>	--	36,886	36,886	--
<i>Due to component unit</i>	95,326	--	95,326	--
<i>Accrued interest payable</i>	19,347	27,625	46,972	--
<i>Customer deposits</i>	--	147,176	147,176	--
<b>Long-term liabilities:</b>				
<b>Portion due or payable within one year:</b>				
<i>Compensated absences</i>	181,535	42,296	223,831	--
<i>Capital leases payable</i>	152,387	38,040	190,427	--
<i>Bonds payable</i>	40,000	755,000	795,000	--
<i>Notes payable</i>	--	--	--	64,908
<b>Portion due or payable after one year:</b>				
<i>Compensated absences</i>	45,384	28,197	73,581	--
<i>Capital leases payable</i>	594,413	124,952	719,365	--
<i>Bonds payable</i>	1,360,000	10,221,882	11,581,882	--
<i>Notes payable</i>	--	--	--	1,151,061
<b>Total liabilities</b>	<b>2,932,638</b>	<b>11,676,083</b>	<b>14,608,721</b>	<b>1,215,969</b>
<b>NET ASSETS</b>				
<i>Invested in capital assets, net of related debt</i>	2,505,793	8,799,958	11,305,751	205,664
<b>Restricted for:</b>				
<i>Debt service</i>	--	37,380	37,380	--
<i>Capital projects</i>	--	2,213,453	2,213,453	--
<b>Public improvements:</b>				
<i>Expendable</i>	667,078	--	667,078	--
<i>Nonexpendable</i>	2,819,676	--	2,819,676	--
<b>Perpetual care:</b>				
<i>Nonexpendable</i>	363,707	--	363,707	--
<i>Public safety</i>	10,296	--	10,296	--
<i>Christmas decorations</i>	14,750	--	14,750	--
<i>Tourism program</i>	245,405	--	245,405	--
<i>Economic development</i>	--	--	--	4,913
<i>Unrestricted</i>	2,255,462	1,353,977	3,609,439	--
<b>Total net assets</b>	<b>\$ 8,882,167</b>	<b>\$ 12,404,768</b>	<b>\$ 21,286,935</b>	<b>\$ 210,577</b>

The accompanying notes are an integral part of this statement.

**THE CITY OF VERNON, TEXAS**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2010**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Governmental activities:</b>				
<i>General government</i>	\$ 886,206	\$ 268,389	\$ --	\$ --
<i>Public safety</i>	3,697,427	933,891	83,439	52,919
<i>Public works</i>	884,644	210,617	--	212,694
<i>Cemetery and parks</i>	347,167	85,947	--	91,190
<i>Subsidies, donations, and other</i>	401,700	39,914	--	--
<i>Christmas decorations</i>	5,742	--	6,079	--
<i>Civic and cultural</i>	30,837	--	--	--
<i>Economic development</i>	153,419	--	151,651	--
<i>Interest expense</i>	91,628	--	--	--
<b>Total governmental activities</b>	<b>6,498,770</b>	<b>1,538,758</b>	<b>241,169</b>	<b>356,803</b>
<b>Business-type activities:</b>				
<i>Water</i>	1,909,526	2,674,802	--	--
<i>Sewer</i>	1,360,157	1,592,122	--	--
<i>Sanitation</i>	1,359,874	1,297,687	--	--
<i>Other</i>	81,645	101,272	--	--
<b>Total business-type activities</b>	<b>4,711,202</b>	<b>5,665,883</b>	<b>--</b>	<b>--</b>
<b>Total primary government</b>	<b>\$ 11,209,972</b>	<b>\$ 7,204,641</b>	<b>\$ 241,169</b>	<b>\$ 356,803</b>
<b>Component unit:</b>				
<i>Business Development Corporation of Vernon</i>	\$ 1,308,150	\$ --	\$ --	\$ --

General Revenues:  
 Taxes:  
   *Ad valorem taxes*  
   *Franchise and occupation tax*  
   *Sales tax*  
   *Hotel occupancy tax*  
   *Other taxes*  
 Seizure income  
 Interest  
 Miscellaneous  
 Gain on sale of capital assets  
 Transfers  
   Total general revenues and transfers  
 Change in net assets  
 Net assets - beginning  
 Net assets - ending

The accompanying notes are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Assets

Governmental Activities	Business-type Activities	Total	Component Unit
\$ (617,817)	\$ --	\$ (617,817)	\$ --
(2,627,178)	--	(2,627,178)	--
(461,333)	--	(461,333)	--
(170,030)	--	(170,030)	--
(361,786)	--	(361,786)	--
337	--	337	--
(30,837)	--	(30,837)	--
(1,768)	--	(1,768)	--
(91,628)	--	(91,628)	--
(4,362,040)	--	(4,362,040)	--
--	765,276	765,276	--
--	231,965	231,965	--
--	(62,187)	(62,187)	--
--	19,627	19,627	--
--	954,681	954,681	--
(4,362,040)	954,681	(3,407,359)	--
			(1,308,150)
1,355,833	--	1,355,833	--
628,239	--	628,239	--
1,044,281	--	1,044,281	521,337
221,329	--	221,329	--
170,727	--	170,727	--
715	--	715	--
157,083	51,263	208,346	14,466
80,850	13,429	94,279	8,700
84,120	--	84,120	--
1,162,070	(1,162,070)	--	--
4,905,247	(1,097,378)	3,807,869	544,503
543,207	(142,697)	400,510	(763,647)
8,338,960	12,547,465	20,886,425	974,224
\$ 8,882,167	\$ 12,404,768	\$ 21,286,935	\$ 210,577

**THE CITY OF VERNON, TEXAS**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**SEPTEMBER 30, 2010**

	General Fund	Electric Trust Principal	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
<i>Assets:</i>				
Cash and cash equivalents	\$ 633,081	\$ 2,828,226	\$ 1,123,504	\$ 4,584,811
<i>Receivables (net of allowances for uncollectibles):</i>				
Ambulance	361,082	--	--	361,082
Ad valorem taxes	115,685	--	--	115,685
Sales taxes	283,448	--	--	283,448
Grants	--	--	245,426	245,426
Accounts	126,683	--	26,388	153,071
Due from other funds	32,196	--	28,998	61,194
Other assets	326	--	--	326
<i>Restricted assets:</i>				
Cash	211,298	--	--	211,298
Total Assets	<u>\$ 1,763,799</u>	<u>\$ 2,828,226</u>	<u>\$ 1,424,316</u>	<u>\$ 6,016,341</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<i>Liabilities:</i>				
Accounts payable	\$ 166,896	\$ --	\$ 238,343	\$ 405,239
Due to other funds	53,702	8,550	--	62,252
Due to component unit	95,326	--	--	95,326
Deferred property tax revenue	123,055	--	--	123,055
Deferred ambulance revenue	305,342	--	--	305,342
Total Liabilities	<u>744,321</u>	<u>8,550</u>	<u>238,343</u>	<u>991,214</u>
<i>Fund balances:</i>				
Reserved for public improvements	177,041	2,819,676	490,037	3,486,754
Reserved for law enforcement	--	--	7,973	7,973
Reserved for fire department	--	--	2,323	2,323
Reserved for Christmas decorations	--	--	14,750	14,750
Reserved for tourism promotion	--	--	245,405	245,405
Reserved for perpetual care	--	--	363,707	363,707
Designated for Main Street	--	--	61,778	61,778
Unreserved, undesignated	842,437	--	--	842,437
Total fund balances	<u>1,019,478</u>	<u>2,819,676</u>	<u>1,185,973</u>	<u>5,025,127</u>
Total Liabilities and Fund Balances	<u>\$ 1,763,799</u>	<u>\$ 2,828,226</u>	<u>\$ 1,424,316</u>	<u>\$ 6,016,341</u>

The accompanying notes are an integral part of this statement.

**THE CITY OF VERNON, TEXAS**

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS  
SEPTEMBER 30, 2010

Total fund balances - governmental funds balance sheet	\$ 5,025,127
Amounts reported for governmental activities in the statement of net assets ("SNA") are different because:	
Capital assets used in governmental activities are not reported in the funds.	4,652,593
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	123,055
Ambulance receivable unavailable to pay for current period expenditures are deferred in the funds.	305,342
The assets and liabilities of internal service funds are included in governmental activities in the SNA.	1,151,783
Issuance costs of debt is recorded as an expenditure in the funds, but capitalized in the SNA.	17,333
Payables for Certificates of Obligation which are not due in the current period are not reported in the funds.	(1,400,000)
Payables for capital leases which are not due in the current period are not reported in the funds.	(746,800)
Payables for compensated absences which are not due in the current period are not reported in the funds.	(226,919)
Payables for accrued interest on long-term debt which are not due in the current period are not reported in the funds.	(19,347)
Net assets of governmental activities - statement of net assets	<u>\$ 8,882,167</u>

The accompanying notes are an integral part of this statement.

# THE CITY OF VERNON, TEXAS

## STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS FOR THE YEAR ENDED SEPTEMBER 30, 2010

	General Fund	Electric Trust Principal	Other Governmental Funds	Total Governmental Funds
<i>Revenues:</i>				
Current ad valorem taxes	\$ 1,266,258	\$ --	\$ --	\$ 1,266,258
Delinquent ad valorem taxes	47,234	--	--	47,234
Penalties and interest	40,096	--	--	40,096
Franchise and occupation tax	674,935	--	--	674,935
Fines and forfeitures	54,946	--	--	54,946
Court tax	164,242	--	--	164,242
Property rentals	9,485	--	--	9,485
Cemetery income	72,248	--	--	72,248
Sales tax	1,044,281	--	--	1,044,281
Housing Authority	3,864	--	--	3,864
Permits	12,199	--	--	12,199
Plumbing inspection fees	97	--	--	97
Contracts	77,958	--	--	77,958
Mixed drink tax	2,621	--	--	2,621
Ambulance service	530,858	--	--	530,858
Administrative charges to other funds	652,906	--	--	652,906
Grants and donations	--	--	591,893	591,893
Seizure income	--	--	715	715
Christmas decorations	--	--	6,079	6,079
Hotel/motel tax	--	--	221,329	221,329
Interest	28,475	70,391	25,782	124,648
Miscellaneous	80,850	--	--	80,850
<b>Total revenues</b>	<b>4,763,553</b>	<b>70,391</b>	<b>845,798</b>	<b>5,679,742</b>
<i>Expenditures:</i>				
General government	865,159	--	2,779	867,938
Public safety	3,403,807	--	59,450	3,463,257
Public works	846,081	--	1,128	847,209
Cemetery and parks	332,652	--	111	332,763
Other	402,416	--	--	402,416
Christmas decorations	--	--	5,742	5,742
Civic and cultural	--	--	30,837	30,837
Economic development	--	--	153,419	153,419
Capital outlay	330,979	--	315,463	646,442
<i>Debt service:</i>				
Principal	126,772	--	--	126,772
Interest charges	82,195	--	--	82,195
<b>Total expenditures</b>	<b>6,390,061</b>	<b>--</b>	<b>568,929</b>	<b>6,958,990</b>
<i>Excess (deficiency) of revenues over (under) expenditures</i>	<i>(1,626,508)</i>	<i>70,391</i>	<i>276,869</i>	<i>(1,279,248)</i>
<i>Other financing sources (uses):</i>				
Transfers in	1,270,463	--	94,888	1,365,351
Transfers out	(94,888)	(52,793)	(55,600)	(203,281)
Financing under capital leases	395,032	--	--	395,032
Sale of perpetual care spaces	--	--	2,133	2,133
Sale of surplus equipment	109,400	--	--	109,400
<b>Total other financing sources (uses)</b>	<b>1,680,007</b>	<b>(52,793)</b>	<b>41,421</b>	<b>1,668,635</b>
<i>Excess of revenues and other financing sources over (under) expenditures and other financing uses</i>	<i>53,499</i>	<i>17,598</i>	<i>318,290</i>	<i>389,387</i>
Fund balances, October 1	965,979	2,802,078	867,683	4,635,740
Fund balances, September 30	\$ 1,019,478	\$ 2,819,676	\$ 1,185,973	\$ 5,025,127

The accompanying notes are an integral part of this statement.

**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, 2010

Net change in fund balances - total governmental funds	\$ 389,387
Amounts reported for governmental activities in the statement of activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	647,158
The depreciation of capital assets used in governmental activities is not reported in the funds.	(306,462)
The book value of capital assets disposed of during the year are not recognized in the funds, but are in the SOA. The net book value disposed of during the year ended September 30, 2010 was:	(25,280)
The internal service funds' activities related to the General Fund are consolidated into the SOA.	45,340
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	2,245
Certain ambulance revenues are deferred in the funds. This is the change in these amounts this year.	125,928
Franchise tax revenues in the SOA not providing current financial resources are not reported as revenues in the funds.	(46,696)
Repayment of capital lease principal is an expenditure in the funds but is not an expense in the SOA.	86,773
Repayment of certificate of obligation principal is an expenditure in the funds but is not an expense in the SOA.	40,000
(Increase) decrease in accrued interest on capital leases from beginning of period to end of period.	(9,434)
Compensated absences are reported as the amount earned in the SOA but as the amount paid in the funds.	(9,204)
Debt financing is reported in the funds but not in the SOA.	(395,032)
Debt issuance costs are capitalized and amortized in the SNA, but expended in the funds in the year of issuance. This is the amortization for this year.	(1,516)
Change in net assets of governmental activities - statement of activities	<u>\$ 543,207</u>

The accompanying notes are an integral part of this statement.

**THE CITY OF VERNON, TEXAS**

## STATEMENT OF NET ASSETS

## PROPRIETARY FUNDS

SEPTEMBER 30, 2010

	Enterprise Fund	Internal Service Funds
	Utility Fund	
<b>ASSETS</b>		
Cash and cash equivalents	\$ 981,516	\$ 1,348,665
Receivables (net of allowances for uncollectibles):		
Ad valorem taxes receivable	3,683	--
Utility billings	422,882	--
Accounts	--	5,645
Due from other funds	53,702	--
Escrow deposit	--	2,000
Other assets	450	--
Restricted assets:		
Cash	2,394,510	--
Bond issue costs (net of accumulated amortization)	171,400	--
Capital assets (net of accumulated depreciation)	19,939,832	--
Total Assets	<u>23,967,975</u>	<u>1,356,310</u>
<b>LIABILITIES</b>		
Accounts payable	254,029	39,007
Sales tax payable	36,886	--
Due to other funds	39,562	13,082
Accrued interest payable	27,625	--
Liabilities payable from restricted assets:		
Customer deposits payable	147,176	--
Long-term liabilities:		
Portion due or payable within one year:		
Compensated absences payable	42,296	--
Capital leases payable	38,040	--
Bonds payable	755,000	--
Portion due or payable after one year:		
Compensated absences payable	28,197	--
Capital leases payable	124,952	--
Bonds payable	10,221,882	--
Total Liabilities	<u>11,715,645</u>	<u>52,089</u>
<b>NET ASSETS</b>		
Invested in capital assets net of related debt	8,799,958	1,304,221
Restricted for:		
Construction	2,213,453	--
Debt service	37,380	--
Unrestricted	1,201,539	--
Total net assets	<u>12,252,330</u>	<u>\$ 1,304,221</u>
Reconciliation to government-wide statement of net assets:		
Adjustment to reflect the consolidation of Internal Service Funds' activities related to the Enterprise Fund	152,438	
Net assets of business-type activities	<u>\$ 12,404,768</u>	

The accompanying notes are an integral part of this statement.

**THE CITY OF VERNON, TEXAS**STATEMENT OF REVENUES, EXPENSES, AND CHANGES  
IN FUND NET ASSETS - PROPRIETARY FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2010

	Enterprise Fund	Internal Service Funds
	Utility Fund	
<b>OPERATING REVENUES:</b>		
Water	\$ 2,659,551	\$ --
Sewer	1,592,122	--
Sanitation	1,297,687	--
Charges and fees	--	788,253
Interest and carrying charges	100,849	--
Other operating revenues	13,429	--
Total Operating Revenues	<u>5,663,638</u>	<u>788,253</u>
<b>OPERATING EXPENSES:</b>		
Billing and collection	215,541	--
Water	1,314,971	--
Sewer	834,156	--
Sanitation	1,284,307	--
Other operating expenses	17,037	--
Insurance claims and related costs	--	772,121
Bad debts	64,608	--
Depreciation	637,360	--
Total Operating Expenses	<u>4,367,980</u>	<u>772,121</u>
Operating Income	<u>1,295,658</u>	<u>16,132</u>
<b>NON-OPERATING REVENUES (EXPENSES):</b>		
Penalty and interest	423	--
Interest income	51,263	32,435
Rent	15,251	--
Interest expense	(332,578)	--
Amortization of bond issue costs	(13,871)	--
Total Non-operating Revenues (Expenses)	<u>(279,512)</u>	<u>32,435</u>
Net Income before Transfers	1,016,146	48,567
<b>TRANSFERS:</b>		
Transfers in	30,600	--
Transfers out	<u>(1,192,670)</u>	<u>--</u>
Net income (Loss)	(145,924)	48,567
Net assets, October 1	12,398,254	1,255,654
Net assets, September 30	<u>\$ 12,252,330</u>	<u>\$ 1,304,221</u>
Reconciliation to government-wide statement of activities:		
Adjustment to reflect the consolidation of Internal Service Funds' activities related to the Enterprise Fund	3,227	
Change in net assets of business-type activities	<u>\$ (142,697)</u>	

The accompanying notes are an integral part of this statement.

**THE CITY OF VERNON, TEXAS**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2010**

	Enterprise Fund	Internal Service Funds
	Utility Fund	
<b>Cash Flows from Operating Activities:</b>		
<i>Cash received from customers</i>	\$ 5,669,855	\$ 783,762
<i>Cash payments to suppliers for goods and services</i>	(2,911,891)	--
<i>Cash payments to employees for services</i>	(736,939)	--
<i>Cash payments to claimants/beneficiaries</i>	--	(848,050)
<b>Net Cash Provided (Used) by Operating Activities</b>	<u>2,021,025</u>	<u>(64,288)</u>
<b>Cash Flows from Non-capital Financing Activities:</b>		
<i>Penalties and interest</i>	423	--
<i>Decrease in customer deposits</i>	(2,761)	--
<i>Payments to other funds</i>	(1,162,070)	--
<b>Net Cash Used by Non-capital Financing Activities</b>	<u>(1,164,408)</u>	<u>--</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>		
<i>Principal and interest paid</i>	(4,146,283)	--
<i>Proceeds from issuance of debt</i>	6,331,465	--
<i>Acquisition or construction of capital assets</i>	(1,699,005)	--
<b>Net Cash Provided by Capital &amp; Related Financing Activities</b>	<u>486,177</u>	<u>--</u>
<b>Cash Flows from Investing Activities:</b>		
<i>Interest received</i>	51,263	32,435
<i>Rents received</i>	15,251	--
<b>Net Cash Provided by Investing Activities</b>	<u>66,514</u>	<u>32,435</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	1,409,308	(31,853)
<b>Cash and Cash Equivalents at Beginning of Year</b>	1,966,718	1,380,518
<b>Cash and Cash Equivalents at End of Year</b>	<u>\$ 3,376,026</u>	<u>\$ 1,348,665</u>
<b>Reconciliation of operating income to net cash provided (used) by operating activities:</b>		
<i>Operating income</i>	\$ 1,295,658	\$ 16,132
<i>Depreciation expense</i>	637,360	--
<i>Decrease (increase) in receivables</i>	6,217	(4,491)
<i>Increase (decrease) in accounts payable</i>	82,157	(75,929)
<i>Increase (decrease) in other operating liabilities</i>	(367)	--
<b>Net Cash Provided (Used) by Operating Activities</b>	<u>\$ 2,021,025</u>	<u>\$ (64,288)</u>
<b>Reconciliation of cash and cash equivalents on the balance sheet to the statement of cash flows:</b>		
Cash and cash equivalents	\$ 981,516	\$ 1,348,665
Restricted assets - cash and cash equivalents	2,394,510	--
<b>Total cash and cash equivalents at end of year</b>	<u>\$ 3,376,026</u>	<u>\$ 1,348,665</u>

The accompanying notes are an integral part of this statement.

**THE CITY OF VERNON, TEXAS**  
*STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES*  
*FIDUCIARY FUNDS*  
*SEPTEMBER 30, 2010*

	<u>Agency Funds</u>
<b>ASSETS</b>	
<i>Cash and cash equivalents</i>	\$ 40,998
<b>Total Assets</b>	<u>\$ 40,998</u>
<b>LIABILITIES</b>	
<i>Payable to others</i>	\$ 40,998
<b>Total Liabilities</b>	<u>\$ 40,998</u>

The accompanying notes are an integral part of this statement.

**THE CITY OF VERNON, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2010**

**A. Summary of Significant Accounting Policies**

The combined financial statements of The City of Vernon, Texas (City) have been prepared in conformity with accounting principles applicable to governmental units which are generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

**1. Reporting Entity**

The City's basic financial statements include the accounts of all its operations. The City evaluated whether any other entity should be included in these financial statements. The criteria for including organizations as component units within the City's reporting entity, as set forth in GASB Statement No. 14, "The Financial Reporting Entity," include whether:

- the organization is legally separate (can sue and be sued in its name)
- the City holds the corporate powers of the organization
- the City appoints a voting majority of the organization's board
- the City is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the City
- there is fiscal dependency by the organization on the City
- the exclusion of the organization would result in misleading or incomplete financial statements

The City also evaluated each legally separate, tax-exempt organization whose resources are used principally to provide support to the City to determine if its omission from the reporting entity would result in financial statements which are misleading or incomplete. GASB Statement No. 14 requires inclusion of such an organization as a component unit when: 1) The economic resources received or held by the organization are entirely or almost entirely for the direct benefit of the City, its component units or its constituents; and 2) The City or its component units is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the organization; and 3) Such economic resources are significant to the City.

Based on these criteria, the City includes the Business Development Corporation of Vernon (BDC) as a component unit. The City is not a component unit of any other reporting entity as defined by the GASB Statement. The Vernon Business Development Corporation issued separately audited Component Unit Financial Statements, copies of which may be obtained at its office.

**2. Basis of Presentation and Accounting**

**a. Governmental Accounting Standards Board Statement No. 34**

These financial statements include implementation of Governmental Accounting Standards Board (GASB) Statement No. 34 - Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments (as amended by GASB Statement No. 37 - Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments). Significant requirements of these statements include the following:

A Management's Discussion and Analysis (MD&A) section providing an analysis of the City's overall financial position and changes in financial position.

Government-wide financial statements prepared using the accrual basis of accounting for all of the City's governmental activities.

**THE CITY OF VERNON, TEXAS**  
*NOTES TO THE FINANCIAL STATEMENTS*  
*FOR THE YEAR ENDED SEPTEMBER 30, 2010*

Fund financial statements focusing on the major funds.

Statement No. 34 established standards for external financial reporting for all state and local governmental entities, which includes a statement of net assets and a statement of activities. It requires the reclassification of net assets into three components - invested in capital assets net of related debt; restricted; and unrestricted. These classifications are defined as follows:

Invested in capital assets net of related debt - This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted - This component of net assets consists of constraints placed on net assets use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulation of other governments or constraints imposed by law through contractual provisions or enabling legislation.

Unrestricted net assets - This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets net of related debt".

b. **Basis of Presentation**

Government-wide Statements: The statement of net assets and the statement of activities include the financial activities of the overall government. Eliminations have been made to minimize the double-counting of internal activities. These statements distinguish between the governmental and business-type activities of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The City does not allocate indirect expenses in the statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the City's funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

The City reports the following major governmental funds:

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

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Electric Trust Principal Fund. This 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 re-invested. 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:

Enterprise Fund. This fund accounts for the activities of City-owned utilities which provide water, sewer and sanitation services to the community.

In addition, the City reports the following fund types:

Internal Service Funds: These 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.

Agency Funds: These 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.

c. Measurement Focus, Basis of Accounting

Government-wide and Proprietary Fund Financial Statements: These financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

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Under GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting," all proprietary funds will continue to follow Financial Accounting Standards Board (FASB) standards issued on or before November 30, 1989. However, from that date forward, proprietary funds will have the option of either 1) choosing not to apply future FASB standards (including amendments of earlier pronouncements), or 2) continuing to follow new FASB pronouncements unless they conflict with GASB guidance. The City has chosen not to apply future FASB standards.

3. Financial Statement Amounts

a. Cash and Cash Equivalents

For purposes of the statement of cash flows, highly liquid investments are considered to be cash equivalents if they have a maturity of three months or less when purchased.

b. Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available (1) when they become due or past due and receivable within the current period and (2) when they are expected to be collected during a 60-day period after the close of the fiscal year. Where property taxes are levied to service Enterprise Fund debt, revenue is recognized when due, net of amounts estimated to be uncollectible. Delinquent taxes are prorated between the General and Enterprise Funds based on rates adopted for the year of the levy.

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

c. 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.

d. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. A capitalization threshold of \$5,000 is used.

Major general infrastructure assets such as land and buildings for which historic cost data are available, are reported under the City's general capitalization policy. The City has elected not to report major general infrastructure assets such as roads and bridges retroactively. Future acquisitions of such assets will be reported under the City's general capitalization policy.

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Capital assets are being depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Infrastructure	30-50
Buildings	30-50
Land Improvements	20-30
Vehicles	4-10
Machinery & Equipment	5-15

e. Receivable and Payable Balances

The City believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation. Therefore, no disclosure is provided which disaggregates those balances.

There are no significant receivables which are not scheduled for collection within one year of year end.

f. 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.

g. Interfund Activity

Interfund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers In and Transfers Out are netted and presented as a single "Transfers" line on the government-wide statement of activities. Similarly, interfund receivables and payables are netted and presented as a single "Internal Balances" line of the government-wide statement of net assets.

h. Use of Estimates

The preparation of financial statements in conformity with GAAP requires the use of management's estimates.

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**4. Budgetary Data**

The following procedures are followed in establishing the budgetary data reflected in the basic financial statements:

- a. Prior to the beginning of the fiscal year, the City prepares a budget for the next succeeding fiscal year. The operating budget includes proposed expenditures and the means of financing them.
- b. A meeting of the City Commission is then called for the purpose of adopting the proposed budget. At least ten days' public notice of the meeting must have been given.
- c. Prior to the start of the fiscal year, the budget is legally enacted through passage of an ordinance by the City Commission.

Once a budget is approved, it can be amended only by approval of a majority of the members of the City Commission. As required by law, such amendments are made before the fact, are reflected in the official minutes of the City Commission and are not made after fiscal year end. During the year, the budget may be amended as necessary. All budget appropriations lapse at year end.

**5. Encumbrance Accounting**

Encumbrances for goods or purchased services are documented by purchase orders or contracts. Under Texas law, appropriations lapse at September 30, and encumbrances outstanding at that time are to be either canceled or appropriately provided for in the subsequent year's budget. The City had no outstanding end-of-year encumbrances.

**B. Compliance and Accountability**

**1. Finance-Related Legal and Contractual Provisions**

In accordance with GASB Statement No. 38, "Certain Financial Statement Note Disclosures," violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

For the year ended September 30, 2010, the City overexpended three functional areas of the General Fund (see Note O). The City will be more diligent in monitoring its actual expenditures compared to the City's adopted budget during the year.

Debt covenants require the City to deposit certain amounts into a debt service sinking fund bank account for future payment of debt obligations. At September 30, 2010, the required balance was \$163,106, but the bank account was \$37,378; consequently, the balance was \$125,728 short.

**2. Deficit Fund Balance or Fund Net Assets of Individual Funds**

At September 30, 2010, the City did not have any funds with deficit fund balances or fund net assets.

**C. Deposits and Investments**

The City's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the City's agent bank approved pledged securities in an amount sufficient to protect City funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance.

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Cash Deposits:

At September 30, 2010, all City funds were deposited in interest bearing checking accounts. Under the terms of the depository contract in effect at that time, interest was earned at a fixed rate of 1.00% compounded monthly.

At September 30, 2010, the carrying amount of the City's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$9,520,800 and the bank balance was \$9,529,000. The City's cash deposits at September 30, 2010, and during the year ended September 30, 2010, were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name.

The BDC deposits funds in an interest-bearing checking account. Excess funds are invested in bank certificates of deposit. The carrying amount of the BDC's checking account and certificates of deposit at September 30, 2010 was \$763,123. Amounts not covered by FDIC insurance were collateralized by pledged securities as of September 30, 2010.

Investments:

The City is required by Government Code Chapter 2256, The Public Funds Investment 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, and maturity and the quality and capability of investment management; and 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 Public Funds Investment Act (Act) requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the basic 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 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.

The City's investments at September 30, 2010 are shown below. Those investments which are evidenced by securities that exist in physical or book entry form are as follows:

<u>Investment - City of Vernon</u>	Fair Value	Weighted Maturity (Days)
Money Market accounts	\$ 2,828,225	1

The BDC's investments at September 30, 2010 are shown below. Those investments which are evidenced by securities that exist in physical or book entry form are as follows:

<u>Investments - Component Unit</u>	Fair Value	Weighted Maturity (Days)
Money Market accounts	\$ 707,173	1

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**D. Capital Assets**

Capital asset activity for the period ended September 30, 2010 was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
<b>Governmental activities:</b>				
<i>Capital assets not being depreciated:</i>				
Land	\$ 981,029	\$ --	\$ --	\$ 981,029
Construction in Progress	31,440	263,671	--	295,111
Total capital assets not being depreciated	<u>1,012,469</u>	<u>263,671</u>	<u>--</u>	<u>1,276,140</u>
<i>Capital assets being depreciated:</i>				
Buildings and improvements	2,418,855	10,431	104,340	2,324,946
Equipment, furniture, fixtures, etc.	1,312,590	271,948	37,070	1,547,468
Vehicles	2,164,584	101,108	91,600	2,174,092
Total capital assets being depreciated	<u>5,896,029</u>	<u>383,487</u>	<u>233,010</u>	<u>6,046,506</u>
Less accumulated depreciation for:				
Buildings and improvements	587,642	55,701	79,060	564,283
Equipment, furniture, fixtures, etc.	734,367	88,904	37,070	786,201
Vehicles	1,249,312	161,857	91,600	1,319,569
Total accumulated depreciation	<u>2,571,321</u>	<u>306,462</u>	<u>207,730</u>	<u>2,670,053</u>
Total capital assets being depreciated, net	<u>3,324,708</u>	<u>77,025</u>	<u>25,280</u>	<u>3,376,453</u>
Governmental activities capital assets, net	<u>\$ 4,337,177</u>	<u>\$ 340,696</u>	<u>\$ 25,280</u>	<u>\$ 4,652,593</u>

Depreciation was charged to departments as follows:

General Government	\$ 13,416
Public Safety	237,006
Public Works	40,504
Cemetery and Parks	15,536
	<u>\$ 306,462</u>

	Beginning Balances	Increases	Decreases	Ending Balances
<b>Business-type activities:</b>				
<i>Capital assets not being depreciated:</i>				
Land	\$ 721,690	\$ --	\$ --	\$ 721,690
Construction in progress	13,473	1,621,911	--	1,635,384
Total capital assets not being depreciated	<u>735,163</u>	<u>1,621,911</u>	<u>--</u>	<u>2,357,074</u>
<i>Capital assets being depreciated:</i>				
Buildings and improvements	25,081,920	30,600	--	25,112,520
Equipment, furniture, fixtures, etc.	1,073,944	--	--	1,073,944
Vehicles	286,735	46,495	--	333,230
Total capital assets being depreciated	<u>26,442,599</u>	<u>77,095</u>	<u>--</u>	<u>26,519,694</u>
Less accumulated depreciation for:				
Buildings and improvements	7,422,603	563,676	--	7,986,279
Equipment, furniture, fixtures, etc.	675,106	43,964	--	719,070
Vehicles	201,867	29,720	--	231,587
Total accumulated depreciation	<u>8,299,576</u>	<u>637,360</u>	<u>--</u>	<u>8,936,936</u>
Total capital assets being depreciated, net	<u>18,143,023</u>	<u>(560,265)</u>	<u>--</u>	<u>17,582,758</u>
Business-type activities capital assets, net	<u>\$ 18,878,186</u>	<u>\$ 1,061,646</u>	<u>\$ --</u>	<u>\$ 19,939,832</u>

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Depreciation was charged to departments as follows:

Water	\$	351,249
Sewer		281,902
Sanitation		4,209
	\$	<u>637,360</u>

**E. Interfund Balances and Activity**

**1. Due To and From Other Funds**

Balances due to and due from other funds at September 30, 2010 consisted of the following:

<u>Due To Fund</u>	<u>Due From Fund</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	Enterprise Fund	\$ 2,530	Retained sales tax
General Fund	Enterprise Fund	8,034	Revenue transfer
General Fund	Electric Trust Principal Fund	8,550	Revenue transfer
General Fund	Internal Service Fund	13,082	Employee benefit transfer
Enterprise Fund	General Fund	10,837	Delinquent ad valorem taxes
Enterprise Fund	General Fund	42,865	Debt service transfer
Other Governmental Funds	Enterprise Fund	7,950	Christmas decorations
Other Governmental Funds	Enterprise Fund	21,048	Debt service transfer
	Total	\$ <u>114,896</u>	

All amounts due are scheduled to be repaid within one year.

**2. Transfers To and From Other Funds**

Transfers to and from other funds at September 30, 2010 consisted of the following:

<u>Transfers To</u>	<u>Transfers From</u>	<u>Amount</u>	<u>Reason</u>
General Fund	Enterprise Fund	\$ 1,192,670	Payments in lieu of taxes
General Fund	Electric Trust Principal Fund	52,793	Revenue transfer
General Fund	Other Governmental Funds	25,000	Revenue transfer
Enterprise Fund	Other Governmental Funds	30,600	Revenue transfer
Other Governmental Funds	General Fund	94,888	Revenue transfer
	Total	\$ <u>1,395,951</u>	

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F. Receivables

Receivables and related allowances for uncollectibles consisted of the following items on September 30, 2010:

	Gross Receivable	Allowance	Net Receivable
<b>General Fund:</b>			
Ambulance billings	\$ 484,544	\$ 123,462	\$ 361,082
Ad valorem taxes	169,958	54,273	115,685
Sales taxes	283,448	--	283,448
Accounts	126,683	--	126,683
<b>Other Governmental Funds:</b>			
Grants	245,426	--	245,426
Accounts	26,388	--	26,388
<b>Enterprise Fund:</b>			
Ad valorem taxes	4,229	546	3,683
Utility billings	859,045	436,163	422,882
<b>Internal Service Funds:</b>			
Accounts	5,645	--	5,645

G. Long-Term Obligations

1. 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, 2010 are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
<b>Governmental activities:</b>					
Capital leases	\$ 438,541	\$ 395,032	\$ 86,773	\$ 746,800	\$ 152,387
Certificates of obligation	1,440,000	--	40,000	1,400,000	40,000
Compensated absences *	217,715	244,980	235,776	226,919	181,535
Total governmental activities	\$ 2,096,256	\$ 640,012	\$ 362,549	\$ 2,373,719	\$ 373,922
<b>Business-type activities:</b>					
Revenue bonds	\$ 8,480,000	\$ 6,291,882	\$ 3,795,000	\$ 10,976,882	\$ 755,000
Capital leases	149,689	35,495	22,192	162,992	38,040
Compensated absences *	62,210	41,603	33,320	70,493	42,296
Total business-type activities	\$ 8,691,899	\$ 6,368,980	\$ 3,850,512	\$ 11,210,367	\$ 835,336

\* - Other long-term liabilities

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

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2. Outstanding Bonds

At September 30, 2010, 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% \$ 1,400,000

Business-type activities:

Tax and Revenue Certificates of Obligation, Series 2002 due through 2023 with interest rates from .70% to 3.35% 2,120,000

General Obligation Refunding Bonds, Series 2004 due through 2016 with interest rates from 3.50% to 4.25% 2,565,000

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% 3,241,882

General Obligation Refunding Bonds, Series 2010 due through 2020 with interest rates from 2.00% to 3.00% 3,050,000

Total business-type activities 10,976,882

Total all bonds \$ 12,376,882

3. Debt Service Requirements on Long-Term Bonds

Debt service requirements on long-term bonds at September 30, 2010 are as follows:

Year Ending September 30,	Governmental Activities		
	Principal	Interest	Total
2011	\$ 40,000	\$ 61,346	\$ 101,346
2012	45,000	58,478	103,478
2013	45,000	55,440	100,440
2014	45,000	52,571	97,571
2015	50,000	50,284	100,284
2016-2020	295,000	219,315	514,315
2021-2025	380,000	150,878	530,878
2026-2030	500,000	56,734	556,734
Totals	\$ 1,400,000	\$ 705,046	\$ 2,105,046

Year Ending September 30,	Business-type Activities		
	Principal	Interest	Total
2011	\$ 757,621	\$ 413,983	\$ 1,171,604
2012	787,628	383,395	1,171,023
2013	907,621	357,490	1,265,111
2014	937,621	329,760	1,267,381
2015	967,621	299,069	1,266,690
2016-2020	3,303,121	1,062,795	4,365,916
2021-2025	1,253,113	675,956	1,929,069
2026-2030	788,113	457,464	1,245,577
2031-2035	1,028,113	213,264	1,241,377
2036-2040	246,310	6,738	253,048
Totals	\$ 10,976,882	\$ 4,199,914	\$ 15,176,796

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4. Capital Leases

Commitments under capitalized lease agreements for facilities and equipment provide for minimum future lease payments as of September 30, 2010 as follows:

<u>Year Ending September 30:</u>	<u>Governmental Activities</u>	<u>Business Type Activities</u>
2011	\$ 187,114	\$ 44,682
2012	181,388	44,976
2013	168,324	42,497
2014	117,437	30,007
2015	100,083	17,340
2016-17	90,696	--
Total Minimum Lease Payments	<u>845,042</u>	<u>179,502</u>
Less: amount representing interest	(98,242)	(16,510)
Present value of minimum lease payments	<u>\$ 746,800</u>	<u>\$ 162,992</u>

The effective interest rates on capital leases are 3.37% - 11.87%.

Following is a summary of property held subject to capital lease:

	<u>Governmental Activities</u>	<u>Business Type Activities</u>
Machinery & equipment	\$ 234,365	\$ 138,937
Vehicles	293,778	61,089
Less: accumulated depreciation	(211,402)	(82,034)
Net	<u>\$ 316,741</u>	<u>\$ 117,992</u>

5. Combined Debt Service Requirements

Debt service requirements on all long-term debt at September 30, 2010 are as follows:

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 192,985	\$ 95,475	\$ 288,460
2012	202,204	82,662	284,866
2013	196,011	72,753	268,764
2014	151,493	63,515	215,008
2015	143,260	57,107	200,367
2016-2020	380,847	224,164	605,011
2021-2025	380,000	150,878	530,878
2026-2030	500,000	56,734	556,734
Totals	<u>\$ 2,146,800</u>	<u>\$ 803,288</u>	<u>\$ 2,950,088</u>

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Year Ending September 30,	Business-type Activities		
	Principal	Interest	Total
2011	\$ 795,661	\$ 420,625	\$ 1,216,286
2012	827,806	388,193	1,215,999
2013	947,098	360,510	1,307,608
2014	966,104	331,284	1,297,388
2015	984,435	299,595	1,284,030
2016-2020	3,303,121	1,062,795	4,365,916
2021-2025	1,253,113	675,956	1,929,069
2026-2030	788,113	457,464	1,245,577
2031-2035	1,028,113	213,264	1,241,377
2036-2040	246,310	6,738	253,048
Totals	\$ 11,139,874	\$ 4,216,424	\$ 15,356,298

6. Refundings

The City refunded certain certificates of obligation by paying them off with the proceeds of new bonds. On September 21, 2010, the City issued the General Obligation Refunding Bonds, Series 2010 of \$3,050,000 (par value) with interest rates ranging from 2.00% to 3.00%. The debt was issued to refund the Tax and WW&S Surplus Revenue Certificates of Obligation, Series 2000 with interest rates ranging from 4.10% to 4.55% and a par value of \$3,045,000. As a result of the refunding, the City reduced its total debt service requirements by \$226,039 resulting in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$221,042.

7. 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.

8. BDC Debt

The BDC has two notes payable outstanding at September 30, 2010 as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Waggoner National Bank, Vernon, Texas	\$ --	\$ 363,275	\$ 8,652	\$ 354,623	\$ 17,627
Texas Leverage Fund	--	885,000	23,654	861,346	47,281
Totals	\$ --	\$ 1,248,275	\$ 32,306	\$ 1,215,969	\$ 64,908

The note payable to the Waggoner National Bank is payable in monthly installments of \$2,880 including interest at 4.50% per annum and is secured by real estate.

The note payable to the Texas Leverage Fund 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 CITY OF VERNON, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2010**

The debt service requirements on the notes payable at September 30, 2010 are as follows:

Year Ending September 30,	BDC Note Payable		
	Principal	Interest	Total
2011	\$ 64,908	\$ 43,026	\$ 107,934
2012	67,415	40,519	107,934
2013	69,880	38,054	107,934
2014	72,436	35,498	107,934
2015	75,089	32,845	107,934
2016-2020	418,860	120,808	539,668
2021-2025	447,381	35,120	482,501
Totals	\$ 1,215,969	\$ 345,870	\$ 1,561,839

H. Interest Costs

Interest costs for the year consisted of the following:

	Current		Total Interest
	Expenditure/ Expense	Capitalized	
Governmental Activities	\$ 82,195	\$ --	\$ 82,195
Business-type Activities	332,578	118,588	451,166
	\$ 414,773	\$ 118,588	\$ 533,361

I. Risk Management

The City is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2010, the City obtained general liability coverage at a cost that is considered to be economically justifiable by joining together with other governmental entities in the State as a member of the Texas Municipal League Intergovernmental Risk Pool (TML). TML is a self-funded pool operating as a common risk management and insurance program. The City pays an annual premium to TML for its above insurance coverage. 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. The City continues to carry commercial insurance for other risks of loss. 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.

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, 2010, the Workmen's Compensation Fund expended \$68,402 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 Business Development Corporation of Vernon (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, 2010, the reserve was \$200,007. The claims of \$22,786 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, 2009 and 2010 were:

**THE CITY OF VERNON, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2010**

	Beginning-of- Year Liability	Current-Year Claims and Changes in Estimates	Claims and Expenses Paid	Balance at Year-End
FYE September 30, 2009	\$ 6,546	\$ 47,250	\$ 23,293	\$ 30,503
FYE September 30, 2010	\$ 30,503	\$ 68,402	\$ 76,119	\$ 22,786

J. Pension Plan

1. Plan Description

The City provides pension benefits for all of its full-time employees through a non-traditional, 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 that have been adopted by the City are within the options available in the governing state statutes of 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 contributions, benefits, and actuarial methods and assumptions used by TMRS. This report may be obtained by writing TMRS, P.O. Box 149153, Austin, Texas 78714-9153 or by calling 800-924-8677; in addition, the report is available on TMRS' website at [www.tmr.org](http://www.tmr.org).

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

Members can retire at ages 60 and above with 5 or more years of service or with 25 years of service regardless of age. A member is vested after 5 years. The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes.

2. Contributions

The contribution rate for employees is 7%, and the City ratio is currently 2 to 1, both as adopted by the governing body of the City. Under the state law governing TMRS, the actuary annually determines the City contribution rate. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to the City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his/her retirement becomes effective. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan's 28-year amortization period. The projected unit credit actuarial cost method is used for determining the City contribution rate. Both the employees and the City make contributions monthly.

**THE CITY OF VERNON, TEXAS**  
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**FOR THE YEAR ENDED SEPTEMBER 30, 2010**

Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect. (i.e. December 31, 2009 valuation is effective for rates beginning January, 2011).

Schedule of Actuarial Liabilities and Funding Progress

Actuarial valuation date	12/31/2009
Actuarial value of assets	\$ 5,656,030
Actuarial accrued liability	\$ 11,687,775
Unfunded actuarial accrued liability (UAAL)	\$ 6,031,745
Funded Ratio	48.39%
Annual covered payroll	\$ 3,728,294
UAAL as a percentage of covered payroll	161.78%
Net pension obligation (NPO) at the beginning of period	\$ --
Annual pension cost	
Annual required contribution (ARC)	\$ 525,853
Contributions made	\$ <u>525,853</u>
NPO at the end of the period	\$ <u><u>--</u></u>
Two preceding years:	
12/31/08:	
Annual Pension Cost	\$ 439,253
Percentage of Annual Pension Costs Contributed	100.0%
NPO at the end of the period	--
12/31/07:	
Annual Pension Cost	\$ 438,732
Percentage of Annual Pension Costs Contributed	100.0%
NPO at the end of the period	--

3. Actuarial Assumptions

Actuarial cost method	Projected Unit Credit
Amortization method	Level Percent of Payroll
Remaining amortization period	28 years - closed period
Asset valuation method	10-year Smoothed Market
Investment rate of return	7.5%
Projected salary increases	Varies by age and service
Includes inflation at	3%
Cost of living adjustments	2.1%

A schedule of funding progress is presented as required supplementary information for the Texas Municipal Retirement System. This schedule provides multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial liability for benefits.

**THE CITY OF VERNON, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2010**

**K. Group-Term Life Insurance Plan**

The City participates in the cost-sharing multiple-employer defined benefit group-term life insurance plan operated by TMRS known as Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group-term insurance coverage to both current and retired employees. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

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 contributions, benefits, and actuarial methods and assumptions used by TMRS. This report may be obtained by writing TMRS, P.O. Box 149153, Austin, Texas 78714-9153 or by calling 800-924-8677; in addition, the report is available on TMRS' website at [www.tMrs.org](http://www.tMrs.org).

The death benefit for active employees provides for a lump-sum payment of approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an "other postemployment benefit" or OPEB.

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. For the months in calendar year 2008, 2009, and 2010, this rate was 0.17%, 0.13%, and 0.12%, respectively. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree life insurance during employees' entire careers.

The City's contribution to the TMRS SDBF for the years ended September 30, 2010, 2009, and 2008 were \$4,673, \$4,761, and \$6,063, respectively, which equaled the required contributions each year.

**L. 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 \$50,000 of medical expenses per covered person up to an aggregate amount of \$804,176 per year. The insurance provider pays amounts in excess of the aforementioned up to \$950,000 per covered person or an aggregate amount of \$1,000,000. Settled claims have not exceeded commercial insurance coverage as of September 30, 2010. Group life insurance premiums are also paid by the Employee Benefits Trust Fund. During the fiscal year ended September 30, 2010, \$703,719 was expended for health benefits, insurance premiums and administrative costs. Charges and fees for the same period amounted to \$788,253, including \$528,662 from the General Fund, \$131,794 from the Enterprise Fund, \$113,954 from employee payroll deductions, and \$13,843 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, 2010, the reserve was \$1,104,214. The claims liability of \$16,221 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.

**THE CITY OF VERNON, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2010**

Changes in the claims liability amounts in the fiscal years ended September 30, 2009 and 2010 were:

	Beginning-of- Year Liability	Current-Year Claims and Changes in Estimates	Claims and Expenses Paid	Balance at Year-End
FYE September 30, 2009	\$ 37,008	\$ 700,728	\$ 653,302	\$ 84,434
FYE September 30, 2010	\$ 84,434	\$ 703,719	\$ 771,932	\$ 16,221

**M. Commitments and Contingencies**

1. **Litigation**

No reportable litigation was pending against the City at September 30, 2010.

2. **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 collectibility 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.

3. **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.

4. **Construction-Related Commitments**

At September 30, 2010, the City has several construction projects in process. The total costs of these projects is \$1,527,559 and the City has incurred \$1,463,741 through September 30, 2010. The remaining commitment on these projects are \$63,818 at September 30, 2010.

**N. 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 post-closure care requirements for landfills accepting solid waste after April 9, 1994. As a result, landfill operators are required to perform certain closing functions and post-closure monitoring and maintenance functions. The Governmental Accounting Standards Board has issued its Statement Number 18 to establish accounting principles for post-closure 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 post-closure 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.

**THE CITY OF VERNON, TEXAS**  
*NOTES TO THE FINANCIAL STATEMENTS*  
*FOR THE YEAR ENDED SEPTEMBER 30, 2010*

O. Expenditures in Excess of Budgeted Amounts

During the year ended September 30, 2010, the City had expenditures in excess of the budgeted amounts in the General Fund as follows:

General government	\$	18,421
Public safety		6,454
Debt service: Interest charges		72,879

## ***REQUIRED SUPPLEMENTARY INFORMATION***

Required supplementary information includes financial information and disclosures required by the Governmental Accounting Standards Board but not considered a part of the basic financial statements.

**THE CITY OF VERNON, TEXAS**  
**GENERAL FUND**  
**BUDGETARY COMPARISON SCHEDULE**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2010**

**EXHIBIT B-1**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<i>Revenues:</i>				
Current ad valorem taxes	\$ 1,286,768	\$ 1,286,768	\$ 1,266,258	\$ (20,510)
Delinquent ad valorem taxes	45,000	45,000	47,234	2,234
Penalties and interest	30,000	30,000	40,096	10,096
Franchise and occupation tax	750,000	750,000	674,935	(75,065)
Fines and forfeitures	100,000	100,000	54,946	(45,054)
Court tax	111,500	111,500	164,242	52,742
Property rentals	10,000	10,000	9,485	(515)
Cemetery income	78,500	78,500	72,248	(6,252)
Sales tax	1,250,000	1,250,000	1,044,281	(205,719)
Housing Authority	3,000	3,000	3,864	864
Permits	10,000	10,000	12,199	2,199
Plumbing inspection fees	600	600	97	(503)
Contracts	85,000	85,000	77,958	(7,042)
Mixed drink tax	4,000	4,000	2,621	(1,379)
Ambulance service	525,000	525,000	530,858	5,858
Administrative charges to other funds	652,906	652,906	652,906	--
In lieu of sales tax from other funds	63,029	63,029	--	(63,029)
In lieu of franchise tax from other funds	277,465	277,465	--	(277,465)
In lieu of ad valorem tax from other funds	79,948	79,948	--	(79,948)
Interest	20,000	21,000	28,475	7,475
Miscellaneous	89,000	89,000	80,850	(8,150)
<b>Total revenues</b>	<b>5,471,716</b>	<b>5,472,716</b>	<b>4,763,553</b>	<b>(709,163)</b>
<i>Expenditures:</i>				
General government	846,738	846,738	865,159	(18,421)
Public safety	3,385,353	3,397,353	3,403,807	(6,454)
Public works	855,264	855,264	846,081	9,183
Cemetery and parks	339,365	339,365	332,652	6,713
Other	484,497	484,497	402,416	82,081
Capital outlay	854,040	908,040	330,979	577,061
<i>Debt service:</i>				
Principal	138,663	138,663	126,772	11,891
Interest charges	9,316	9,316	82,195	(72,879)
<b>Total expenditures</b>	<b>6,913,236</b>	<b>6,979,236</b>	<b>6,390,061</b>	<b>589,175</b>
<i>Excess (deficiency) of revenues over (under) expenditures</i>	<b>(1,441,520)</b>	<b>(1,506,520)</b>	<b>(1,626,508)</b>	<b>(119,988)</b>
<i>Other financing sources (uses):</i>				
Transfers in	707,904	772,904	1,270,463	497,559
Transfers out	--	--	(94,888)	(94,888)
Financing under capital leases	711,616	711,616	395,032	(316,584)
Sale of surplus equipment	22,000	22,000	109,400	87,400
<b>Total other financing sources (uses)</b>	<b>1,441,520</b>	<b>1,506,520</b>	<b>1,680,007</b>	<b>173,487</b>
<b>Excess of revenues and other financing sources over (under) expenditures and other financing uses</b>	<b>--</b>	<b>--</b>	<b>53,499</b>	<b>53,499</b>
Fund balances/equity, October 1	965,979	965,979	965,979	--
<b>Fund balances/equity, September 30</b>	<b>\$ 965,979</b>	<b>\$ 965,979</b>	<b>\$ 1,019,478</b>	<b>\$ 53,499</b>

**THE CITY OF VERNON, TEXAS**  
**SCHEDULE OF FUNDING PROGRESS**  
**TEXAS MUNICIPAL RETIREMENT SYSTEM**  
**YEAR ENDED SEPTEMBER 30, 2010**

**EXHIBIT B-2**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/2007	\$ 5,845,375	\$ 11,123,303	\$ 5,277,928	52.6%	\$ 3,178,320	166.1%
12/31/2008	4,918,920	10,642,225	5,723,305	46.2%	3,524,654	162.4%
12/31/2009	5,656,030	11,687,775	6,031,745	48.4%	3,728,294	161.8%