

THE CITY OF VERNON, TEXAS

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2011

The City of Vernon, Texas
Annual Financial Report
For The Year Ended September 30, 2011

TABLE OF CONTENTS

	Page	Exhibit
FINANCIAL SECTION		
Independent Auditor's Report on Financial Statements.....	1	
Management's Discussion and Analysis (Required Supplementary Information).....	3	
 <u>Basic Financial Statements</u>		
Government-wide Financial Statements:		
Statement of Net Assets.....	11	A-1
Statement of Activities.....	12	A-2
Fund Financial Statements:		
Balance Sheet - Governmental Funds.....	14	A-3
Reconciliation of the Governmental Funds		
Balance Sheet to the Statement of Net Assets.....	15	A-4
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds.....	16	A-5
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....		
Statement of Net Assets - Proprietary Funds.....	17	A-6
Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Funds.....	18	A-7
Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Funds.....	19	A-8
Statement of Cash Flows - Proprietary Funds.....	20	A-9
Statement of Fiduciary Assets and Liabilities - Fiduciary Funds.....	21	A-10
Notes to the Financial Statements	22	
 <u>Required Supplementary Information:</u>		
Budgetary Comparison Schedule - General Fund.....	41	B-1
Schedule of Funding Progress - Texas Municipal Retirement System.....	42	B-2
Notes to the Required Supplementary Information.....	43	

Financial Section



EDGIN, PARKMAN, FLEMING & FLEMING, PC

CERTIFIED PUBLIC ACCOUNTANTS

4110 KELL BLVD., SECOND FLOOR • P.O. BOX 750
WICHITA FALLS, TEXAS 76307-0750
PH. (940) 766-5550 • FAX (940) 766-5778

MICHAEL D. EDGIN, CPA
DAVID L. PARKMAN, CPA, CFE
A. PAUL FLEMING, CPA
J. MARK FLEMING, CPA

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, 2011, 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 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 the 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 the 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, 2011, 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, Budgetary Comparison Schedule, and the Schedule of Funding Progress for 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 10, 2012

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, 2011. 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 \$20,950,736 (net assets). Of this amount, \$2,716,376 (unrestricted net assets) may be used to meet the City’s obligations.
- During the year, the City’s total net assets decreased by \$505,447.
- The governmental funds reported a fund balance this year of \$4,296,901, which is a decrease of \$728,223 in comparison with the prior year amount. \$240,263, or 6% of this total fund balance, is available for spending at the government’s discretion (unassigned fund balance).
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$240,263, or 3% 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

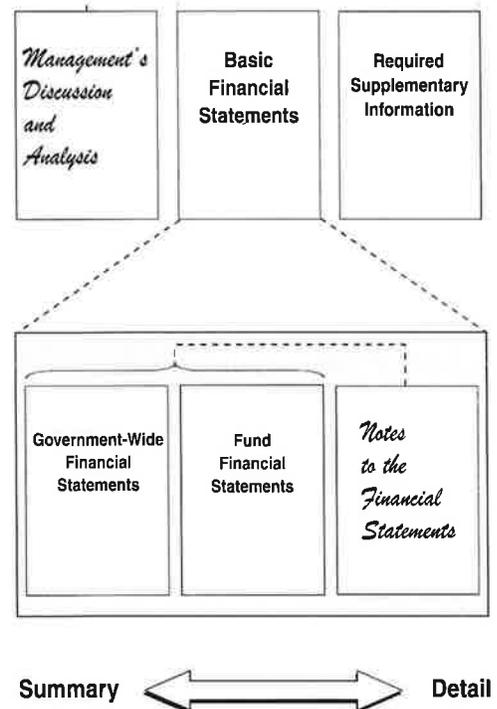


Figure A-2 summarizes the major features of the City's financial statements, including the portion of the City's government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each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

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

Type of Statements	Fund Statements		
	Government-wide	Governmental Funds	Proprietary Funds
Scope	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
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures & changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses, and changes in net assets • Statement of cash flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	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
Type of inflow/outflow information	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 \$20,950,736 at September 30, 2011. (See Table A-1)

**Table A-1
City's Net Assets**

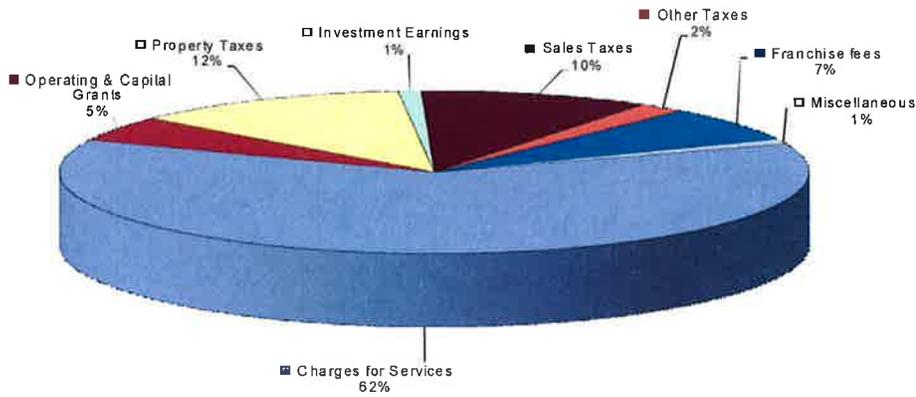
	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Current and other assets	\$ 6,271,438	\$ 7,162,212	\$ 2,953,759	\$ 4,141,019	\$ 9,225,197	\$ 11,303,231
Capital assets, net	5,544,994	4,652,593	20,253,633	19,939,832	25,798,627	24,592,425
Total assets	11,816,432	11,814,805	23,207,392	24,080,851	35,023,824	35,895,656
Current and other liabilities	970,592	932,841	1,230,227	1,301,052	2,200,819	2,233,893
Long-term liabilities	2,328,661	1,999,797	9,543,608	10,375,031	11,872,269	12,374,828
Total liabilities	3,299,253	2,932,638	10,773,835	11,676,083	14,073,088	14,608,721
Net assets						
Invested in capital assets, net of related debt	3,035,162	2,505,793	9,914,956	8,799,958	12,950,118	11,305,751
Restricted	3,988,476	4,120,912	1,295,766	2,250,833	5,284,242	6,371,745
Unrestricted	1,493,541	2,255,462	1,222,835	1,353,977	2,716,376	3,609,439
Total net assets	\$ 8,517,179	\$ 8,882,167	\$ 12,433,557	\$ 12,404,768	\$ 20,950,736	\$ 21,286,935

The \$2,716,376 of unrestricted net assets at September 30, 2011 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.

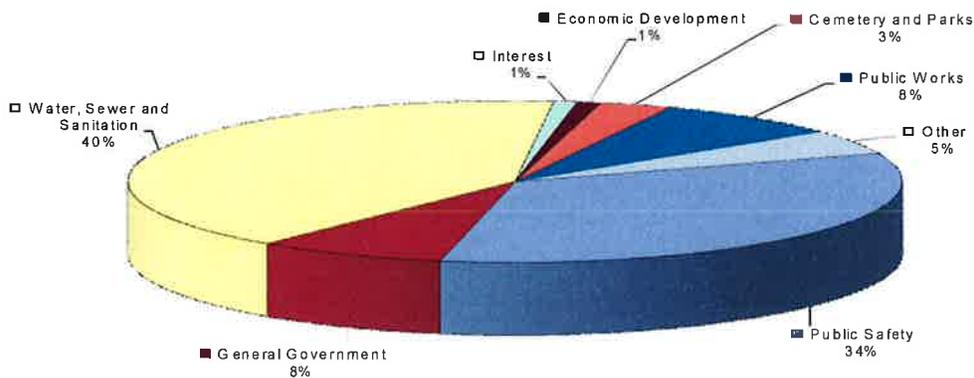
Changes in net assets. The City's total revenues, both program and general, were \$11,252,303. A significant portion, 62%, of the City's revenue comes from charges for services. (See Figure A-3.) 5% comes from operating and capital grants and contributions, 10% comes from sales taxes, 12% from property taxes and 7% from franchise fees. Other minor categories combined make up 4% of the City's total revenues.

The total cost of all programs and services was \$11,757,750; 40% of these costs are for water, sewer and sanitation related expenses. The City's expenses cover a range of services, with 34% 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 2011**



**Figure A-4
Functional Expense for Fiscal Year 2011**



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 Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Revenues						
Program revenues						
Charges for services	\$ 1,170,186	\$ 1,538,758	\$ 5,975,940	\$ 5,665,883	\$ 7,146,126	\$ 7,204,641
Operating and capital grants	577,365	597,972			577,365	597,972
General revenues						
Property taxes	1,352,338	1,355,833			1,352,338	1,355,833
Sales taxes	1,099,362	1,044,281			1,099,362	1,044,281
Franchise fees	630,027	628,239			630,027	628,239
Other taxes	223,631	392,056			223,631	392,056
Investment earnings	62,326	157,083	17,849	51,263	80,175	208,346
Gain on sale of capital assets		84,120			-	84,120
Seizure income	89	715			89	715
Miscellaneous	102,702	80,850	40,488	13,429	143,190	94,279
Total revenues	5,218,026	5,879,907	6,034,277	5,730,575	11,252,303	11,610,482
Expenses						
General government	899,069	886,206			899,069	886,206
Public safety	4,000,768	3,697,427			4,000,768	3,697,427
Public works	933,971	884,644			933,971	884,644
Cemetery and Parks	365,593	347,167			365,593	347,167
Subsidies, donations, and other	427,724	401,700			427,724	401,700
Christmas decorations	4,513	5,742			4,513	5,742
Civic and cultural	109,405	30,837			109,405	30,837
Economic development	104,449	153,419			104,449	153,419
Interest	112,011	91,628			112,011	91,628
Water, sewer and sanitation			4,800,247	4,711,202	4,800,247	4,711,202
Total expenses	6,957,503	6,498,770	4,800,247	4,711,202	11,757,750	11,209,972
Transfers	1,205,242	1,162,070	(1,205,242)	(1,162,070)	-	-
Increase in net assets	\$ (534,235)	\$ 543,207	\$ 28,788	\$ (142,697)	\$ (505,447)	\$ 400,510

The most significant fluctuation between years relates to the following:

- Charges for Services decreased by \$58,515, which is due to usage decreases.
- Grants decreased by \$20,607, due to limited grant opportunities.
- Sales Tax increased by \$55,081 due to stimulus of retail sales in the local economy.
- Public Safety and Public Works expenses increased \$303,341 and \$49,327, mostly due to the City's efforts of providing quality services.

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 \$6,957,503; however, the amount that our taxpayers paid for these activities through property taxes was only \$1,352,338.
- Some of the cost was paid by those who directly benefited from the programs through charges for services of \$1,170,186.

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

	Total Cost of Services		Net Cost of Services	
	2011	2010	2011	2010
General government	\$ 899,069	\$ 886,206	\$ 512,014	\$ 617,817
Public safety	4,000,768	3,697,427	3,403,322	2,627,178
Public works	933,971	884,644	729,711	461,333
Cemetery and parks	365,593	347,167	170,083	170,030
Economic development	109,405	153,419	(213,112)	1,768
Subsidies, donations and other	427,724	401,700	388,697	361,786
Christmas decorations	4,513	5,742	(2,179)	(337)
Civic and cultural	104,449	30,837	109,405	30,837
Interest	112,011	91,628	112,011	91,628
Total	\$ 6,957,503	\$ 6,498,770	\$ 5,209,952	\$ 4,362,040

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Revenues from governmental funds totaled \$5,449,606, a decrease of \$230,136 or 4%. The largest decrease was in ambulance service revenue, a decrease of \$141,441 or 27%. Positive revenue pressure was seen in sales taxes, up by \$55,081, an increase of 5% which can be attributed to stimulus of retail sales in the local economy.

Expenditures from governmental funds totaled \$7,941,568, an increase of \$982,578 or 14%. The largest increase was in capital outlay, an increase of \$597,341 or 92%. The second largest increase was in public safety, an increase of \$196,422 or 6%. This was mostly due to grant activity. The City has aggressively pursued grants in recent years, and this trend is expected to continue.

Transfers in to the general fund decreased by \$52,399 or 4%.

General Fund Budgetary Highlights

Over the course of the year, the City revised its budget. As stated above, ambulance service revenue fell below expectations due the City's ambulance biller going defunct. Some budgetary expenses were thus deferred. Various department expenditures exceeded budgeted amounts. Public Safety and Public Works spending exceeded budgeted amounts by \$47,638 and \$30,150 respectively.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At September 30, 2011, the City had invested in a broad range of capital assets totaling \$25,798,627, 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			
	2011	2010	2011	2010	2011	2010
Land	\$ 981,029	\$ 981,029	\$ 721,690	\$ 721,690	\$ 1,702,719	\$ 1,702,719
Construction in progress	323,474	295,111	25,273	1,635,384	348,747	1,930,495
Buildings and improvements	2,224,630	1,760,663	19,121,997	17,126,241	21,346,627	18,886,904
Equipment, furniture, fixtures	711,395	761,267	322,715	354,874	1,034,110	1,116,141
Vehicles	1,304,466	854,523	61,958	101,643	1,366,424	956,166
Total net assets	\$ 5,544,994	\$ 4,652,593	\$ 20,253,633	\$ 19,939,832	\$ 25,798,627	\$ 24,592,425

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

For the City's fiscal year 2012, the City plans capital additions including:

Capital Item	Governmental	Business	Total
	Activities	Activities	
Street Department Dump Truck	\$ 60,000		\$ 60,000
Street Department Paving (Lorance Road)	45,000		45,000
Police Vehicles	50,000		50,000
Fire Department Repeater and Radios	57,000		57,000
Fire Department Hose	6,000		6,000
Fire Department Station Alarm	16,000		16,000
EMS Defibrillator/ Cardiac Monitor	30,000		30,000
Allingham Park Wood Chips	9,000		9,000
Aquatic Center	1,380,000		1,380,000
Barricades		\$ 6,000	6,000
Water and Sewer Service Truck		22,000	22,000
Wastewater Truck with Crane		30,000	30,000
Generators for Wells		97,900	97,900
Generators and Hook-Ups for Lift Station		25,000	25,000
Total	\$ 1,653,000	\$ 180,900	\$ 1,833,900

Long-term Obligations

At September 30, 2011, the City had \$13,200,105 in bonds, compensated absences, and leases outstanding as shown in Table A-5. More detailed information about the City's long-term obligations is presented in the notes to the financial statements.

**Table A-5
Outstanding Debt**

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Capital Leases	\$ 1,149,832	\$ 746,800	\$ 119,417	\$ 162,992	\$ 1,269,249	\$ 909,792
Certificates of Obligation	1,360,000	1,400,000			1,360,000	1,400,000
Compensated absences	276,684	226,919	74,912	70,493	351,596	297,412
Revenue Bonds			10,219,260	10,976,882	10,219,260	10,976,882
Total	\$ 2,786,516	\$ 2,373,719	\$ 10,413,589	\$ 11,210,367	\$ 13,200,105	\$ 13,584,086

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Appraised value used for the 2011-12 budget preparation was \$367,979,300. This value is up over \$15 million, or 4.4% above last year's value. Local sales tax revenue did show an upturn, unlike other municipalities' sales tax revenue. These indicators were taken into consideration when adopting the General Fund budget for 2011-12.

The 2011-12 budgets were developed as zero balance budgets and expenditures do not exceed the projected revenues. Revenues and other financing sources in the General Fund budget are \$6,462,473, an increase of 2.5% over the prior year. Property tax revenue is expected to be flat over the anticipated revenue for the prior year due to once again lowering of the tax rate to the effective rate. The tax rate adopted is \$0.360944 per \$100 of assessed valuation. This rate is below the prior year's effective tax rate of \$0.370683 per \$100 valuation as calculated by the Wilbarger County Appraisal District. Ambulance revenue is expected to rebound with increased collection efforts and an agreement with a new billing firm. The City, County, and Hospital District have agreed to a three year average process for the entities to share in ambulance deficit costs.

Enterprise Fund budget was set with a 2% overall increase in water and sewer rates to cover increased costs due to debt service, permit renewal, increased testing, and fuel increases.

General Fund expenditures are budgeted at \$6,458,222, an increase of 2.4% over the prior year. Enterprise Fund expenditures are budgeted at \$6,348,855, an increase of 3.4% over the prior year.

If these estimates are realized, both the City's budgetary General Fund's fund balance and Enterprise Fund Balance are expected to increase by the close of 2011-12.

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, 2011

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
ASSETS				
<i>Cash and cash equivalents</i>	\$ 5,384,682	\$ 777,267	\$ 6,161,949	\$ 476,111
<i>Receivables, net of allowances for uncollectibles</i>	800,405	424,841	1,225,246	
<i>Due from primary government</i>	--	--	--	113,144
<i>Internal balances</i>	(142,891)	142,891	--	--
<i>Notes receivable</i>	--	--	--	250,000
<i>Other assets</i>	326	450	776	22,813
<i>Escrow deposit</i>	2,000	--	2,000	--
Restricted assets:				
<i>Cash and cash equivalents</i>	211,091	1,456,629	1,667,720	--
<i>Bond issue costs, net of accumulated amortization</i>	15,825	151,681	167,506	--
<i>Capital assets, net of accumulated depreciation</i>	5,544,994	20,253,633	25,798,627	637,903
Total assets	11,816,432	23,207,392	35,023,824	1,499,971
LIABILITIES				
<i>Accounts payable</i>	363,303	149,861	513,164	--
<i>Sales tax payable</i>	--	39,287	39,287	--
<i>Due to component unit</i>	112,944	--	112,944	--
<i>Accrued interest payable</i>	36,490	19,298	55,788	5,024
<i>Customer deposits</i>	--	151,800	151,800	--
<i>Unearned revenue</i>	--	--	--	60,000
Long-term liabilities:				
Portion due or payable within one year:				
<i>Compensated absences</i>	221,347	44,947	266,294	--
<i>Capital leases payable</i>	191,508	37,406	228,914	--
<i>Bonds payable</i>	45,000	787,628	832,628	--
<i>Notes payable</i>	--	--	--	146,942
Portion due or payable after one year:				
<i>Compensated absences</i>	55,337	29,965	85,302	--
<i>Capital leases payable</i>	958,324	82,011	1,040,335	--
<i>Bonds payable</i>	1,315,000	9,431,632	10,746,632	--
<i>Notes payable</i>	--	--	--	2,483,522
Total liabilities	3,299,253	10,773,835	14,073,088	2,695,488
NET ASSETS				
<i>Invested in capital assets, net of related debt</i>	3,035,162	9,914,956	12,950,118	301,044
Restricted for:				
<i>Debt service</i>	--	281,056	281,056	--
<i>Capital projects</i>	--	1,014,710	1,014,710	--
Public improvements:				
<i>Expendable</i>	531,006	--	531,006	--
<i>Nonexpendable</i>	2,824,139	--	2,824,139	--
Perpetual care:				
<i>Nonexpendable</i>	357,006	--	357,006	--
<i>Public safety</i>	11,583	--	11,583	--
<i>Christmas decorations</i>	17,005	--	17,005	--
<i>Tourism program</i>	247,737	--	247,737	--
<i>Economic development</i>	--	--	--	(1,496,561)
<i>Unrestricted</i>	1,493,541	1,222,835	2,716,376	--
Total net assets	\$ 8,517,179	\$ 12,433,557	\$ 20,950,736	\$ (1,195,517)

The accompanying notes are an integral part of this statement.

THE CITY OF VERNON, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2011

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
<i>General government</i>	\$ 899,069	\$ 375,606	\$ 11,449	\$ --
<i>Public safety</i>	4,000,768	471,161	126,285	--
<i>Public works</i>	933,971	204,260	--	--
<i>Cemetery and parks</i>	365,593	80,132	--	115,378
<i>Subsidies, donations, and other</i>	427,724	39,027	--	--
<i>Christmas decorations</i>	4,513	--	6,692	--
<i>Civic and cultural</i>	109,405	--	--	--
<i>Economic development</i>	104,449	--	35,273	282,288
<i>Interest expense</i>	112,011	--	--	--
Total governmental activities	6,957,503	1,170,186	179,699	397,666
Business-type activities:				
<i>Water</i>	2,019,335	2,937,373	--	--
<i>Sewer</i>	1,280,879	1,606,862	--	--
<i>Sanitation</i>	1,399,465	1,325,416	--	--
<i>Other</i>	100,568	106,289	--	--
Total business-type activities	4,800,247	5,975,940	--	--
Total primary government	\$ 11,757,750	\$ 7,146,126	\$ 179,699	\$ 397,666
Component unit:				
<i>Business Development Corporation of Vernon</i>	\$ 2,026,711	\$ 56,100	\$ --	\$ --

General Revenues:
 Taxes:
 Ad valorem taxes
 Franchise and occupation tax
 Sales tax
 Hotel occupancy tax
 Other taxes
 Seizure income
 Interest
 Miscellaneous
 Transfers
 Total general revenues and transfers
 Change in net assets
 Net assets - beginning
 Prior period adjustment
 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
\$ (512,014)	\$ --	\$ (512,014)	\$ --
(3,403,322)	--	(3,403,322)	--
(729,711)	--	(729,711)	--
(170,083)	--	(170,083)	--
(388,697)	--	(388,697)	--
2,179	--	2,179	--
(109,405)	--	(109,405)	--
213,112	--	213,112	--
(112,011)	--	(112,011)	--
<u>(5,209,952)</u>	<u>--</u>	<u>(5,209,952)</u>	<u>--</u>
--	918,038	918,038	--
--	325,983	325,983	--
--	(74,049)	(74,049)	--
--	5,721	5,721	--
--	1,175,693	1,175,693	--
<u>(5,209,952)</u>	<u>1,175,693</u>	<u>(4,034,259)</u>	<u>--</u>
			<u>(1,970,611)</u>
1,352,338	--	1,352,338	--
630,027	--	630,027	--
1,099,362	--	1,099,362	550,524
216,155	--	216,155	--
7,476	--	7,476	--
89	--	89	--
62,326	17,849	80,175	13,993
102,702	40,488	143,190	--
1,205,242	(1,205,242)	--	--
4,675,717	(1,146,905)	3,528,812	564,517
(534,235)	28,788	(505,447)	(1,406,094)
8,882,164	12,404,769	21,286,933	210,577
169,250	--	169,250	--
<u>\$ 8,347,929</u>	<u>\$ 12,433,557</u>	<u>\$ 20,781,486</u>	<u>\$ (1,195,517)</u>

THE CITY OF VERNON, TEXAS

BALANCE SHEET - GOVERNMENTAL FUNDS

SEPTEMBER 30, 2011

	General Fund	Electric Trust Principal	Other Governmental Funds	Total Governmental Funds
ASSETS				
<i>Assets:</i>				
Cash and cash equivalents	\$ 194,665	\$ 2,824,139	\$ 1,034,918	\$ 4,053,722
<i>Receivables, net of allowances for uncollectibles:</i>				
Ambulance	129,258	--	--	129,258
Ad valorem taxes	107,953	--	--	107,953
Sales taxes	299,985	--	--	299,985
Grants	--	--	9,674	9,674
Accounts	86,519	--	21,016	107,535
Due from other funds	2,573	--	1,297	3,870
Other assets	326	--	--	326
<i>Restricted assets:</i>				
Cash	211,091	--	--	211,091
Total Assets	\$ 1,032,370	\$ 2,824,139	\$ 1,066,905	\$ 4,923,414
LIABILITIES AND FUND BALANCES				
<i>Liabilities:</i>				
Accounts payable	\$ 199,588	\$ --	\$ 105,683	\$ 305,271
Due to other funds	3,232	--	--	3,232
Due to component unit	112,944	--	--	112,944
Deferred property tax revenue	95,184	--	--	95,184
Deferred ambulance revenue	109,882	--	--	109,882
Total Liabilities	520,830	--	105,683	626,513
<i>Fund balances:</i>				
<i>Restricted for:</i>				
Public improvements	203,115	2,824,139	327,891	3,355,145
Law enforcement	--	--	5,209	5,209
Fire department	--	--	6,374	6,374
Christmas decorations	--	--	17,005	17,005
Tourism promotion	--	--	247,737	247,737
Perpetual care	--	--	357,006	357,006
Committed for Main Street	68,162	--	--	68,162
Unassigned	240,263	--	--	240,263
Total Fund Balances	511,540	2,824,139	961,222	4,296,901
Total Liabilities and Fund Balances	\$ 1,032,370	\$ 2,824,139	\$ 1,066,905	\$ 4,923,414

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, 2011

Total fund balances - governmental funds balance sheet	\$ 4,296,901
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.	5,544,994
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	95,184
Ambulance receivable unavailable to pay for current period expenditures are deferred in the funds.	109,882
Franchise tax receivable unavailable to pay for current period expenditures not recorded in the funds.	146,000
The assets and liabilities of internal service funds are included in governmental activities in the SNA.	1,131,399
Issuance costs of debt is recorded as an expenditure in the funds, but capitalized in the SNA.	15,825
Payables for Certificates of Obligation which are not due in the current period are not reported in the funds.	(1,360,000)
Payables for capital leases which are not due in the current period are not reported in the funds.	(1,149,832)
Payables for compensated absences which are not due in the current period are not reported in the funds.	(276,684)
Payables for accrued interest on long-term debt which are not due in the current period are not reported in the funds.	(36,490)
Net assets of governmental activities - statement of net assets	<u>\$ 8,517,179</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, 2011

	General Fund	Electric Trust Principal	Other Governmental Funds	Total Governmental Funds
<i>Revenue:</i>				
Current ad valorem taxes	\$ 1,281,332	\$ --	\$ --	\$ 1,281,332
Delinquent ad valorem taxes	62,442	--	--	62,442
Penalties and interest	36,435	--	--	36,435
Franchise and occupation tax	653,277	--	--	653,277
Fines and forfeitures	153,422	--	--	153,422
Property rentals	8,880	--	--	8,880
Cemetery income	65,885	--	--	65,885
Sales tax	1,099,362	--	--	1,099,362
Housing Authority	3,469	--	--	3,469
Permits	10,046	--	--	10,046
Plumbing inspection fees	175	--	--	175
Contracts	83,477	--	--	83,477
Mixed drink tax	4,007	--	--	4,007
Ambulance service	389,417	--	--	389,417
Administrative charges to other funds	652,849	--	--	652,849
Grants and donations	7,221	--	563,452	570,673
Seizure income	--	--	89	89
Christmas decorations	--	--	6,692	6,692
Hotel/motel tax	--	--	216,155	216,155
Interest	9,793	28,283	10,744	48,820
Miscellaneous	102,702	--	--	102,702
Total revenues	4,624,191	28,283	797,132	5,449,606
<i>Expenditures:</i>				
General government	846,164	--	20,604	866,768
Public safety	3,530,221	--	129,458	3,659,679
Public works	881,647	--	--	881,647
Cemetery and parks	332,406	--	11,959	344,365
Other	427,724	--	--	427,724
Christmas decorations	--	--	4,513	4,513
Civic and cultural	--	--	109,405	109,405
Economic development	--	--	104,449	104,449
Capital outlay	662,572	--	581,211	1,243,783
<i>Debt service:</i>				
Principal	204,367	--	--	204,367
Interest charges	94,868	--	--	94,868
Total expenditures	6,979,969	--	961,599	7,941,568
Excess of revenues over (under) expenditures	(2,355,778)	28,283	(164,467)	(2,491,962)
<i>Other financing sources (uses):</i>				
Transfers in	1,218,064	--	--	1,218,064
Transfers out	--	(23,819)	--	(23,819)
Debt proceeds	567,399	--	--	567,399
Proceeds from sale of perpetual care spaces	--	--	1,495	1,495
Proceeds from sale of capital assets	600	--	--	600
Total other financing sources (uses)	1,786,063	(23,819)	1,495	1,763,739
Excess of revenues and other financing sources over (under) expenditures and other financing uses	(569,715)	4,464	(162,972)	(728,223)
Fund balances/equity, October 1	1,081,255	2,819,675	1,124,194	5,025,124
Fund balances/equity, September 30	\$ 511,540	\$ 2,824,139	\$ 961,222	\$ 4,296,901

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, 2011

Net change in fund balances - total governmental funds	\$ (728,223)
Amounts reported for governmental activities in the statement of activities (SOA) are different because:	
Capital outlays are not reported as expenses in the SOA.	1,243,783
The depreciation of capital assets used in governmental activities is not reported in the funds.	(349,503)
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, 2011 was:	(1,879)
The internal service funds' activities related to the General Fund are consolidated into the SOA.	(20,384)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	(27,871)
Certain ambulance revenues are deferred in the funds. This is the change in these amounts this year.	(195,460)
Franchise tax revenues in the SOA not providing current financial resources are not reported as revenues in the funds.	146,000
Repayment of capital lease principal is an expenditure in the funds but is not an expense in the SOA.	164,367
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.	(17,143)
Compensated absences are reported as the amount earned in the SOA but as the amount paid in the funds.	(49,765)
Debt financing is reported in the funds but not in the SOA.	(567,399)
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.	(1,508)
Change in net assets of governmental activities - statement of activities	<u>\$ (364,985)</u>

The accompanying notes are an integral part of this statement.

THE CITY OF VERNON, TEXASSTATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2011

	Enterprise Fund	Internal Service Funds
	Utility Fund	
ASSETS		
Cash and cash equivalents	\$ 777,267	\$ 1,330,960
Receivables, net of allowances for uncollectibles:		
Ad valorem taxes	3,292	--
Utility billings	421,549	--
Due from other funds	3,232	--
Escrow deposit	--	2,000
Other assets	450	--
Restricted assets:		
Cash	1,456,629	--
Bond issue costs, net of accumulated amortization	151,681	--
Capital assets, net of accumulated depreciation	20,253,633	--
Total Assets	<u>23,067,733</u>	<u>1,332,960</u>
LIABILITIES		
Accounts payable	149,861	58,032
Sales tax payable	39,287	--
Due to other funds	3,870	--
Accrued interest payable	19,298	--
Liabilities payable from restricted assets:		
Customer deposits payable	151,800	--
Long-term liabilities:		
Portion due or payable within one year:		
Compensated absences payable	44,947	--
Capital leases payable	37,406	--
Bonds payable	787,628	--
Portion due or payable after one year:		
Compensated absences payable	29,965	--
Capital leases payable	82,011	--
Bonds payable	9,431,632	--
Total Liabilities	<u>10,777,705</u>	<u>58,032</u>
NET ASSETS		
Invested in capital assets net of related debt	9,914,956	1,274,928
Restricted for:		
Construction	1,014,710	--
Debt service	281,056	--
Unrestricted	1,079,306	--
Total Net Assets	<u>12,290,028</u>	<u>\$ 1,274,928</u>
Reconciliation to government-wide statement of net assets:		
Adjustment to reflect the consolidation of Internal Service Funds' activities related to the Enterprise Fund	143,529	
Net assets of business-type activities	<u>\$ 12,433,557</u>	

The accompanying notes are an integral part of this statement.

THE CITY OF VERNON, TEXASSTATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET ASSETS - PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Enterprise Fund	Internal Service Funds
	Utility Fund	
OPERATING REVENUES:		
Water	\$ 2,912,870	\$ --
Sewer	1,606,862	--
Sanitation	1,325,416	--
Charges and fees	--	814,598
Interest and carrying charges	106,289	--
Other operating revenues	40,488	--
Total Operating Revenues	<u>5,991,925</u>	<u>814,598</u>
OPERATING EXPENSES:		
Billing and collection	205,519	--
Water	1,406,557	--
Sewer	797,125	--
Sanitation	1,325,571	--
Other operating expenses	36,854	--
Insurance claims and related costs	--	857,397
Bad debts	63,714	--
Depreciation	670,241	--
Total Operating Expenses	<u>4,505,581</u>	<u>857,397</u>
Operating Income (Loss)	<u>1,486,344</u>	<u>(42,799)</u>
NON-OPERATING REVENUES (EXPENSES):		
Interest income	17,849	13,506
Rent	24,503	--
Loss on disposal of capital assets	(16,015)	--
Interest expense	(254,974)	--
Amortization of bond issue costs	(14,768)	--
Total Non-operating Revenues (Expenses)	<u>(243,405)</u>	<u>13,506</u>
Net Income (Loss) before Contributions and Transfers	1,242,939	(29,293)
Contributions to Other Funds	(10,998)	--
Transfers out	<u>(1,194,244)</u>	<u>--</u>
Net Income (Loss)	37,697	(29,293)
Net assets, October 1	12,252,331	1,304,221
Net assets, September 30	<u>\$ 12,290,028</u>	<u>\$ 1,274,928</u>
Reconciliation to government-wide statement of activities:		
Adjustment to reflect the consolidation of Internal Service Funds' activities related to the Enterprise Fund	(8,909)	
Change in net assets of business-type activities	<u>\$ 28,788</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, 2011

	Enterprise Fund	Internal Service Funds
	Utility Fund	
Cash Flows from Operating Activities:		
<i>Cash received from customers</i>	\$ 5,665,362	\$ 820,243
<i>Cash payments to suppliers for goods and services</i>	(2,770,636)	--
<i>Cash payments to employees for services</i>	(877,108)	--
<i>Cash payments to claimants/beneficiaries</i>	--	(851,454)
Net Cash Provided (Used) by Operating Activities	<u>2,017,618</u>	<u>(31,211)</u>
Cash Flows from Non-capital Financing Activities:		
<i>Increase in customer deposits</i>	4,624	--
<i>Payments to other funds</i>	(1,194,244)	--
Net Cash Used by Non-capital Financing Activities	<u>(1,189,620)</u>	<u>--</u>
Cash Flows from Capital and Related Financing Activities:		
<i>Principal and interest paid</i>	(1,028,438)	--
<i>Acquisition or construction of capital assets</i>	(1,011,055)	--
<i>Loss on disposition of capital assets</i>	16,015	--
<i>Contribution to other funds</i>	10,998	--
Net Cash Used by Capital & Related Financing Activities	<u>(2,012,480)</u>	<u>--</u>
Cash Flows from Investing Activities:		
<i>Interest received</i>	17,849	13,506
<i>Rents received</i>	24,503	--
Net Cash Provided by Investing Activities	<u>42,352</u>	<u>13,506</u>
Net Decrease in Cash and Cash Equivalents	(1,142,130)	(17,705)
Cash and Cash Equivalents at Beginning of Year	3,376,026	1,348,665
Cash and Cash Equivalents at End of Year	<u>\$ 2,233,896</u>	<u>\$ 1,330,960</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
<i>Operating income (loss)</i>	\$ 1,486,344	\$ (42,799)
<i>Depreciation expense</i>	670,241	--
<i>Decrease (increase) in receivables</i>	1,724	5,645
<i>Decrease (increase) in due from other funds</i>	(3,232)	--
<i>Increase (decrease) in accounts payable</i>	(104,168)	19,025
<i>Increase (decrease) in sales tax payable</i>	2,401	--
<i>Increase (decrease) in due to other funds</i>	(35,692)	(13,082)
Net Cash Provided (Used) by Operating Activities	<u>\$ 2,017,618</u>	<u>\$ (31,211)</u>
Reconciliation of cash and cash equivalents on the balance sheet to the statement of cash flows:		
Cash and cash equivalents	\$ 777,267	\$ 1,330,960
Restricted assets - cash and cash equivalents	1,456,629	--
Total cash and cash equivalents at end of year	<u>\$ 2,233,896</u>	<u>\$ 1,330,960</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, 2011

	<u>Agency Funds</u>
ASSETS	
<i>Cash and cash equivalents</i>	\$ 47,561
Total Assets	<u>\$ 47,561</u>
LIABILITIES	
<i>Payable to others</i>	\$ 47,561
Total Liabilities	<u>\$ 47,561</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, 2011

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," as amended by GASB Statement No. 39, 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, as amended, 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, 2011

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.

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

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 non-major fund types:

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

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

Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities.

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

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

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.

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.

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

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

<u>Asset Class</u>	<u>Estimated Useful Lives (Years)</u>
Buildings	30-50
Infrastructure	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. Accordingly, actual results could differ from those estimates.

i. Fund Balances - Governmental Funds

Fund balances of the governmental funds are classified as follows:

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

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

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

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

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

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

When an expenditure is incurred for a purpose for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

4. 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, 2011, the City overexpended five functional areas of the General Fund. The City will be more diligent in monitoring its actual expenditures compared to the City's adopted budget during the year.

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

At September 30, 2011, the City did not have any funds with deficit fund balances or fund net assets.

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

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.

Cash Deposits:

At September 30, 2011, the carrying amount of the City's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$7,829,669 and the bank balance was \$7,882,640. The City's cash deposits at September 30, 2011, and during the year ended September 30, 2011, 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 a money market account. The carrying amount of the BDC's bank accounts at September 30, 2011 was \$476,111. Amounts not covered by FDIC insurance were collateralized by pledged securities as of September 30, 2011.

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, 2011 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>	<u>Fair Value</u>	<u>Weighted Maturity (Days)</u>
Money Market accounts	\$ <u>2,832,690</u>	<u>1</u>

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

The BDC's investments at September 30, 2011 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	\$ 422,434	1

D. Receivables

Receivables and related allowances for uncollectibles consisted of the following items on September 30, 2011.

	Gross Receivable	Allowance	Net Receivable
General Fund:			
Ambulance billings	\$ 839,886	\$ 710,628	\$ 129,258
Ad valorem taxes	162,701	54,748	107,953
Sales taxes	299,985	--	299,985
Accounts	86,519	--	86,519
Other Governmental Funds:			
Grants	9,674	--	9,674
Accounts	21,016	--	21,016
Enterprise Fund:			
Ad valorem taxes	3,745	453	3,292
Utility billings	927,640	506,091	421,549

E. Notes Receivable

The BDC has been issued a series of five \$50,000 individual notes from Tangarie Alternative Power, LLC (Tangarie) as part of Tangarie's relocation to Vernon, Texas. The notes are interest-free and mature from January 2012 through May 2012. Upon mutual agreement, the notes may be extended an additional 6 months. The notes are secured by Tangarie's future contracts and accounts receivable.

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

F. Capital Assets

Capital asset activity for the period ended September 30, 2011 was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
<i>Capital assets not being depreciated:</i>				
Land	\$ 981,029	\$ --	\$ --	\$ 981,029
Construction in Progress	295,111	549,194	520,831	323,474
Total capital assets not being depreciated	1,276,140	549,194	520,831	1,304,503
<i>Capital assets being depreciated:</i>				
Buildings and improvements	2,324,074	--	49,524	2,274,550
Infrastructure	872	520,831	--	521,703
Equipment, furniture, fixtures, etc.	1,547,468	47,235	73,718	1,520,985
Vehicles	2,174,092	647,532	369,281	2,452,343
Total capital assets being depreciated	6,046,506	1,215,598	492,523	6,769,581
Less accumulated depreciation for:				
Buildings and improvements	563,736	54,793	47,467	571,062
Infrastructure	547	14	--	561
Equipment, furniture, fixtures, etc.	786,201	97,107	73,718	809,590
Vehicles	1,319,569	197,589	369,281	1,147,877
Total accumulated depreciation	2,670,053	349,503	490,466	2,529,090
Total capital assets being depreciated, net	3,376,453	866,095	2,057	4,240,491
Governmental activities capital assets, net	\$ 4,652,593	\$ 1,415,289	\$ 522,888	\$ 5,544,994

Depreciation was charged to departments as follows:

General Government	\$ 13,343
Public Safety	277,022
Public Works	44,134
Cemetery and Parks	15,004
	\$ 349,503

	Beginning Balances	Increases	Decreases	Ending Balances
Business-type activities:				
<i>Capital assets not being depreciated:</i>				
Land	\$ 721,690	\$ --	\$ --	\$ 721,690
Construction in progress	1,635,384	1,004,941	2,615,052	25,273
Total capital assets not being depreciated	2,357,074	1,004,941	2,615,052	746,963
<i>Capital assets being depreciated:</i>				
Buildings and improvements	25,112,520	2,615,052	351,500	27,376,072
Equipment, furniture, fixtures, etc.	1,073,944	6,115	--	1,080,059
Vehicles	333,230	--	45,358	287,872
Total capital assets being depreciated	26,519,694	2,621,167	396,858	28,744,003
Less accumulated depreciation for:				
Buildings and improvements	7,986,279	603,280	335,484	8,254,075
Equipment, furniture, fixtures, etc.	719,070	38,274	--	757,344
Vehicles	231,587	28,687	34,360	225,914
Total accumulated depreciation	8,936,936	670,241	369,844	9,237,333
Total capital assets being depreciated, net	17,582,758	1,950,926	27,014	19,506,670
Business-type activities capital assets, net	\$ 19,939,832	\$ 2,955,867	\$ 2,642,066	\$ 20,253,633

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

Depreciation was charged to departments as follows:

Water	\$ 388,245
Sewer	277,788
Sanitation	4,208
	<u>\$ 670,241</u>

	Beginning Balances	Increases	Decreases	Ending Balances
Business Development Corporation				
<i>Capital assets not being depreciated:</i>				
Land	\$ 94,722	\$ 4,370	\$ --	\$ 99,092
Construction in progress	44,720	--	44,720	--
Total capital assets not being depreciated	<u>139,442</u>	<u>4,370</u>	<u>44,720</u>	<u>99,092</u>
<i>Capital assets being depreciated:</i>				
Buildings and improvements	445,931	139,218	--	585,149
Equipment, furniture, fixtures, etc.	24,730	--	--	24,730
Total capital assets being depreciated	<u>470,661</u>	<u>139,218</u>	<u>--</u>	<u>609,879</u>
Less accumulated depreciation for:				
Buildings and improvements	25,536	21,072	--	46,608
Equipment, furniture, fixtures, etc.	24,280	180	--	24,460
Total accumulated depreciation	<u>49,816</u>	<u>21,252</u>	<u>--</u>	<u>71,068</u>
Total capital assets being depreciated, net	<u>420,845</u>	<u>117,966</u>	<u>--</u>	<u>538,811</u>
BDC capital assets, net	<u>\$ 560,287</u>	<u>\$ 122,336</u>	<u>\$ 44,720</u>	<u>\$ 637,903</u>

G. Interfund Balances and Activity

1. Due To and From Other Funds

Balances due to and due from other funds at September 30, 2011 consisted of the following:

Due To Fund	Due From Fund	Amount	Purpose
General Fund	Enterprise Fund	\$ 2,573	Short-term loan
Other Governmental Funds	Enterprise Fund	1,297	Short-term loan
Enterprise Fund	General Fund	3,232	Short-term loan
	Total	<u>\$ 7,102</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, 2011 consisted of the following:

Transfers To	Transfers From	Amount	Reason
General Fund	Enterprise Fund	\$ 1,194,245	Payments in lieu of taxes
General Fund	Electric Trust Principal Fund	23,819	Revenue transfer
	Total	<u>\$ 1,218,064</u>	

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

H. 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, 2011 are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Governmental activities:					
Capital leases	\$ 746,800	\$ 567,399	\$ 164,367	\$ 1,149,832	\$ 191,508
Certificates of obligation	1,400,000	--	40,000	1,360,000	45,000
Compensated absences *	226,919	1,241,223	1,191,458	276,684	221,347
Total governmental activities	\$ 2,373,719	\$ 1,808,622	\$ 1,395,825	\$ 2,786,516	\$ 457,855
Business-type activities:					
Revenue bonds	\$ 10,976,882	\$ --	\$ 757,622	\$ 10,219,260	\$ 787,628
Capital leases	162,992	--	43,575	119,417	37,406
Compensated absences *	70,493	290,871	286,452	74,912	44,947
Total business-type activities	\$ 11,210,367	\$ 290,871	\$ 1,087,649	\$ 10,413,589	\$ 869,981
Business Development Corporation					
Notes payable	\$ 1,215,969	\$ 1,500,000	\$ 85,505	\$ 2,630,464	\$ 146,942
Total BDC	\$ 1,215,969	\$ 1,500,000	\$ 85,505	\$ 2,630,464	\$ 146,942

* - Other long-term liabilities

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

Liability	Activity Type	Fund
Compensated absences	Governmental	General Fund
Compensated absences	Business-type	Enterprise Fund

2. Outstanding Bonds

At September 30, 2011, 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%		\$ 1,360,000
Business-type activities:		
Tax and Revenue Certificates of Obligation, Series 2002 due through 2023 with interest rates from .70% to 3.35%		1,995,000
General Obligation Refunding Bonds, Series 2004 due through 2016 with interest rates from 3.50% to 4.25%		2,175,000
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%		3,214,260

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

General Obligation Refunding Bonds, Series 2010 due through 2020 with interest rates from 2.00% to 3.00%	2,835,000
Total business-type activities	10,219,260
Total all bonds	<u>\$ 11,579,260</u>

3. Debt Service Requirements on Long-Term Bonds

Debt service requirements on long-term bonds at September 30, 2011 are as follows:

Year Ending September 30,	Governmental Activities		
	Principal	Interest	Total
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	55,000	48,315	103,315
2017-2021	310,000	207,371	517,371
2022-2026	400,000	134,308	534,308
2027-2030	410,000	36,933	446,933
Totals	<u>\$ 1,360,000</u>	<u>\$ 643,700</u>	<u>\$ 2,003,700</u>

Year Ending September 30,	Business-type Activities		
	Principal	Interest	Total
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	967,622	299,069	1,266,691
2016	997,628	265,054	1,262,682
2017-2021	2,588,113	956,924	3,545,037
2022-2026	1,113,113	624,848	1,737,961
2027-2031	828,114	413,739	1,241,853
2032-2036	1,091,800	155,652	1,247,452
Totals	<u>\$ 10,219,260</u>	<u>\$ 3,785,931</u>	<u>\$ 14,005,191</u>

4. Capital Leases

Commitments under capitalized lease agreements for facilities and equipment provide for minimum future lease payments as of September 30, 2011 as follows:

Year Ending September 30:	Governmental Activities	Business Type Activities
2012	\$ 236,997	\$ 41,822
2013	223,934	39,638
2014	178,635	30,007
2015	161,637	17,339
2016	110,706	--
2017-2021	259,658	--
2022-2026	218,125	--
Total Minimum Lease Payments	<u>1,389,692</u>	<u>128,806</u>
Less: amount representing interest	(239,860)	(9,389)
Present value of minimum lease payments	<u>\$ 1,149,832</u>	<u>\$ 119,417</u>

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

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

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

	Governmental Activities	Business Type Activities
Machinery & equipment	\$ 218,365	\$ 138,937
Vehicles	1,360,694	112,421
Less: accumulated depreciation	(365,578)	(116,346)
Net	<u>\$ 1,213,481</u>	<u>\$ 135,012</u>

5. Combined Debt Service Requirements

Debt service requirements on all long-term debt at September 30, 2011 are as follows:

Year Ending September 30,	Governmental Activities		
	Principal	Interest	Total
2012	\$ 236,508	\$ 103,967	\$ 340,475
2013	231,101	93,273	324,374
2014	193,581	82,625	276,206
2015	187,311	74,610	261,921
2016	146,590	67,431	214,021
2017-2021	510,257	266,772	777,029
2022-2026	594,484	157,949	752,433
2027-2030	410,000	36,933	446,933
Totals	<u>\$ 2,509,832</u>	<u>\$ 883,560</u>	<u>\$ 3,393,392</u>

Year Ending September 30,	Business-type Activities		
	Principal	Interest	Total
2012	\$ 825,034	\$ 387,811	\$ 1,212,845
2013	944,336	360,413	1,304,749
2014	966,104	331,284	1,297,388
2015	984,435	299,595	1,284,030
2016	997,628	265,054	1,262,682
2017-2021	2,588,113	956,924	3,545,037
2022-2026	1,113,113	624,848	1,737,961
2027-2031	828,114	413,739	1,241,853
2032-2036	1,091,800	155,652	1,247,452
Totals	<u>\$ 10,338,677</u>	<u>\$ 3,795,320</u>	<u>\$ 14,133,997</u>

6. 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.

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

7. BDC Debt

The BDC has three notes payable outstanding at September 30, 2011 as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Waggoner National Bank, Vernon, Texas	\$ 354,623	\$ --	\$ 17,764	\$ 336,859	\$ 18,581
Texas Leverage Fund (#1)	861,346	--	47,281	814,065	48,871
Texas Leverage Fund (#2)	--	1,500,000	20,460	1,479,540	79,490
Totals	\$ 1,215,969	\$ 1,500,000	\$ 85,505	\$ 2,630,464	\$ 146,942

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 matures in February 2025.

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

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

The debt service requirements on the notes payable at September 30, 2011 are as follows:

Year Ending September 30,	BDC Note Payable		
	Principal	Interest	Total
2012	\$ 146,942	\$ 87,389	\$ 234,331
2013	151,998	82,332	234,330
2014	157,264	77,066	234,330
2015	162,716	71,615	234,331
2016	168,359	65,972	234,331
2017-2021	933,653	238,000	1,171,653
2022-2026	909,532	68,156	977,688
Totals	\$ 2,630,464	\$ 690,530	\$ 3,320,994

I. Interest Costs

Interest costs for the year consisted of the following:

	Current Expenditure/ Expense	Capitalized	Total Interest
Governmental Activities	\$ 94,868	\$ --	\$ 94,868
Business-type Activities	254,974	161,919	416,893
	\$ 349,842	\$ 161,919	\$ 511,761
BDC	\$ 54,028	\$ --	\$ 54,028

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

J. 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 2011, 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, 2011, the Workmen's Compensation Fund expended \$57,334 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, 2011, the reserve was \$144,723. The claims payable of \$37,959 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, 2010 and 2011 were:

	Beginning-of- Year Liability	Current-Year Claims and Changes in Estimates	Claims and Expenses Paid	Balance at Year-End
FYE September 30, 2010	\$ 30,503	\$ 68,402	\$ 76,119	\$ 22,786
FYE September 30, 2011	\$ 22,786	\$ 57,334	\$ 42,161	\$ 37,959

K. 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.

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

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 27.1-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. 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, 2010 valuation is effective for rates beginning January, 2012).

Schedule of Actuarial Liabilities and Funding Progress

	(Original Fund Structure) 12/31/2010	(New Fund Structure) 12/31/2010
Actuarial valuation date		
Actuarial value of assets	\$ 6,110,284	\$ 12,243,544
Actuarial accrued liability	\$ 12,329,677	\$ 17,533,035
Unfunded actuarial accrued liability (UAAL)	\$ 6,219,393	\$ 5,289,491
Funded Ratio	49.56%	69.83%
Annual covered payroll	\$ 3,908,797	\$ 3,908,797
UAAL as a percentage of covered payroll	159.11%	135.32%

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

Net pension obligation (NPO) at the beginning of period	\$	--	\$	--
Annual pension cost				
Annual required contribution (ARC)	\$	636,382	\$	636,382
Contributions made	\$	636,382	\$	636,382
NPO at the end of the period	\$	--	\$	--
Two preceding years:				
12/31/09:				
Annual Pension Cost	\$	525,853		
Percentage of Annual Pension Costs Contributed		100.0%		
NPO at the end of the period		--		
12/31/08:				
Annual Pension Cost	\$	439,253		
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	27.1 years - closed period
Asset valuation method	10-year Smoothed Market
Investment rate of return	7.0%
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.

L. 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.tmr.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 OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

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 2009, 2010, and 2011, this rate was 0.13%, 0.12%, 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, 2011, 2010, and 2009 were \$4,739, \$4,673, and \$4,761, respectively, which equaled the required contributions each year.

M. 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 \$801,641 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, 2011. Group life insurance premiums are also paid by the Employee Benefits Trust Fund. During the fiscal year ended September 30, 2011, \$800,063 was expended for health benefits, insurance premiums and administrative costs. Charges and fees for the same period amounted to \$814,597, including \$534,806 from the General Fund, \$132,071 from the Enterprise Fund, \$135,113 from employee payroll deductions, and \$12,607 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, 2011, the reserve was \$1,130,204.

The claims liability of \$20,073 is based on the requirements of GASB Statement Number 10 which requires that a liability for claims be reported if information available prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

Changes in the claims liability amounts in the fiscal years ended September 30, 2010 and 2011 were:

	Beginning-of- Year Liability	Current-Year Claims and Changes in Estimates	Claims and Expenses Paid	Balance at Year-End
FYE September 30, 2010	\$ 84,434	\$ 703,719	\$ 771,932	\$ 16,221
FYE September 30, 2011	\$ 16,221	\$ 864,431	\$ 860,579	\$ 20,073

N. Commitments and Contingencies

1. Litigation

No reportable litigation was pending against the City at September 30, 2011.

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

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, 2011, the City had two construction projects in process. The total costs of these projects is \$1,891,840 and the City has incurred \$301,078 through September 30, 2011. The remaining commitment on these projects are \$1,590,762 at September 30, 2011.

O. 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.

P. Prior Period Adjustment

At September 30, 2010, the City did not record a receivable from one of its contracted utilities for franchise tax payments due to the City, but payable in March 2011 totalling \$169,250. This oversight was noted during the current year and an adjustment was necessary to properly record the receivable at September 30, 2010, hence a prior period adjustment was necessary to the Governmental Activities' Net Asset balance at September 30, 2010.

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, 2011

EXHIBIT B-1

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<i>Revenue:</i>				
Current ad valorem taxes	\$ 1,286,768	\$ 1,286,786	\$ 1,281,332	\$ (5,454)
Delinquent ad valorem taxes	47,000	47,000	62,442	15,442
Penalties and interest	32,000	32,000	36,435	4,435
Franchise and occupation tax	750,000	750,000	653,277	(96,723)
Fines and forfeitures	158,500	158,500	153,422	(5,078)
Court tax	150,000	150,000	--	(150,000)
Property rentals	12,000	12,000	8,880	(3,120)
Cemetery income	73,000	73,000	65,885	(7,115)
Sales tax	1,189,000	1,189,000	1,099,362	(89,638)
Housing Authority	3,000	3,000	3,469	469
Permits	10,000	10,000	10,046	46
Plumbing inspection fees	300	300	175	(125)
Contracts	115,000	115,000	83,477	(31,523)
Swimming pool	40,000	40,000	--	(40,000)
Mixed drink tax	4,000	4,000	4,007	7
Ambulance service	560,000	560,000	389,417	(170,583)
Administrative charges to other funds	652,849	652,849	652,849	--
Grants and donations	--	--	7,221	7,221
Interest	22,600	22,600	9,793	(12,807)
Miscellaneous	65,600	65,600	102,702	37,102
Total revenues	5,171,617	5,171,635	4,624,191	(547,444)
<i>Expenditures:</i>				
General government	903,963	903,963	846,164	57,799
Public safety	3,476,596	3,482,583	3,530,221	(47,638)
Public works	851,497	851,497	881,647	(30,150)
Cemetery and parks	362,590	362,590	332,406	30,184
Other	431,264	425,277	427,724	(2,447)
Capital outlay	836,374	861,651	662,572	199,079
<i>Debt service:</i>				
Principal	155,860	155,860	204,367	(48,507)
Interest charges	31,086	31,086	94,868	(63,782)
Total expenditures	7,049,230	7,074,507	6,979,969	94,538
Excess (deficiency) of revenues (under) expenditures	(1,877,613)	(1,902,872)	(2,355,778)	(452,906)
<i>Other financing sources (uses):</i>				
Transfers in	1,138,838	1,138,838	1,218,064	79,226
Transfers out	(30,000)	(30,000)	--	30,000
Debt proceeds	542,374	567,651	567,399	(252)
Proceeds from sale of capital assets	20,000	20,000	600	(19,400)
Total other financing sources (uses)	1,671,212	1,696,489	1,786,063	89,574
Excess of revenues and other financing sources over (under) expenditures and other financing uses	(206,401)	(206,383)	(569,715)	(363,332)
Fund balances/equity, October 1	1,081,255	1,081,255	1,081,255	--
Fund balances/equity, September 30	\$ 874,854	\$ 874,872	\$ 511,540	\$ (363,332)

THE CITY OF VERNON, TEXAS
SCHEDULE OF FUNDING PROGRESS
TEXAS MUNICIPAL RETIREMENT SYSTEM
YEAR ENDED SEPTEMBER 30, 2011

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)
12/31/2008	\$ 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%
12/31/2010 (1)	6,110,284	12,329,677	6,219,393	49.6%	3,908,797	159.1%
12/31/2010 (2)	12,243,544	17,533,035	5,289,491	69.8%	3,908,797	135.3%

(1) Actuarial valuation performed under the original fund structure.

(2) Actuarial valuation performed under the new fund structure.

THE CITY OF VERNON, TEXAS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION FOR THE YEAR ENDED SEPTEMBER 30, 2011

A. Basis of Budgeting

The City of Vernon, Texas (City) budget for the General Fund is prepared and presented on the modified accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP).

B. Budget Process

1. Budgeting

The annual budget is legally adopted for the General Fund and is presented in the accompanying schedule for the General Fund. The following procedures are used in establishing the budgetary data reflected in that schedule:

- 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 after ten days' public notice of the meeting has been given.
- C. Prior to start of the fiscal year, the budget is legally enacted through passage of a resolution by the City Commission.

The budget is prepared and controlled by the Finance Director at the revenue object and expenditure function level.

Once the 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.

2. Expenditures in Excess of Budgeted Amounts

During the year ended September 30, 2011, the City had expenditures in excess of the budgeted amounts in the General Fund as follows:

Public safety	\$	47,638
Public works		30,150
Cemetery and parks		2,447
Debt service - principal		48,507
Debt service - interest charges		63,782