

THE CITY OF VERNON, TEXAS

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2017

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FINANCIAL SECTION



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Independent Auditor's Report

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 (City) as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Vernon, Texas as of September 30, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Schedule of Changes in Net Pension Liability and Related Ratios – Texas Municipal Retirement System, and the Schedule of Contributions – 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 required part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Edgin, Parkman, Fleming & Fleming, PC

EDGIN, PARKMAN, FLEMING & FLEMING, PC

Wichita Falls, Texas
March 7, 2018

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, 2017. Please read it in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$24,706,883 (net position). Of this amount, \$3,585,290 (unrestricted net position) may be used to meet the City's obligations.
- During the year, the City's total net position increased by \$2,826,093.
- The governmental funds reported a fund balance this year of \$5,371,150, which is an increase of \$1,205,476 in comparison with the prior year amount of \$4,165,674 or 28.89%. Of this total fund balance, \$1,387,616 is available for spending at the government's discretion (unassigned fund balance).
- At the end of the current fiscal year, unassigned fund balance for the General Fund and all other Governmental Funds was \$1,387,616. \$3,983,534 of the total Governmental Funds fund balances are either restricted, committed or nonspendable.

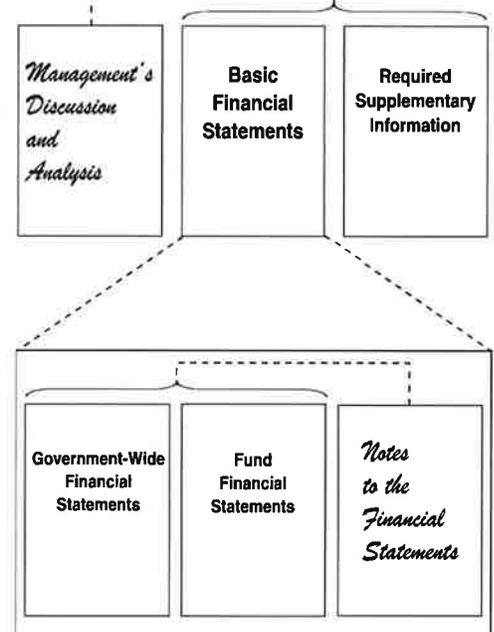
OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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



Summary ↔ Detail

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

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

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

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

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

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

- *Governmental activities.* Most of the City's basic services are included here, such as the fire department, law enforcement, street department, 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, sewer and sanitation system are included here.
- *Component Units.* The City includes one other entity in its report - the Business Development Corporation of Vernon. Although legally separate, this "component unit" is important because the City is financially accountable for it.

Fund Financial Statements

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

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

The City has the following kinds of funds:

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

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net position. The City's combined net position was \$24,706,883 at September 30, 2017. (See Table A-1)

Table A-1
City's Net Position

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Current and other assets	\$ 7,252,134	\$ 6,287,451	\$ 4,275,487	\$ 3,114,049	\$ 11,527,621	\$ 9,401,500
Capital assets, net	6,388,444	6,431,854	17,717,838	17,848,910	24,106,282	24,280,764
Total assets	13,640,578	12,719,305	21,993,325	20,962,959	35,633,903	33,682,264
Deferred outflows of resources related to pension plan	1,056,019	1,391,222	303,953	378,330	1,359,972	1,769,552
Deferred loss on refunding debt	-	-	260,962	275,061	260,962	275,061
Total deferred outflows of resources	1,056,019	1,391,222	564,915	653,391	1,620,934	2,044,613
Current and other liabilities	1,033,859	1,338,473	1,161,787	1,193,882	2,195,646	2,532,355
Long-term liabilities	4,262,639	4,536,212	5,619,453	6,328,369	9,882,092	10,864,581
Total liabilities	5,296,498	5,874,685	6,781,240	7,522,251	12,077,738	13,396,936
Deferred inflows of resources related to pension plan	365,123	353,122	105,093	96,028	470,216	449,150
Net assets						
Net investment in capital assets	4,392,504	4,311,134	11,788,776	11,614,579	16,181,280	15,925,713
Restricted	3,909,446	3,592,862	1,030,867	547,256	4,940,313	4,140,118
Unrestricted	733,026	(21,276)	2,852,264	1,836,236	3,585,290	1,814,960
Total net assets	\$ 9,034,976	\$ 7,882,720	\$ 15,671,907	\$ 13,998,071	\$ 24,706,883	\$ 21,880,791

The \$3,585,290 of unrestricted net position at September 30, 2017 represents resources available to fund the programs of the City next year, if sufficient resources are not derived from future resources. The restricted net position is required to be set aside for long-term debt, public improvements and various other activities.

Changes in net position. The City's total revenues, both program and general, were \$14,222,142. A significant portion, 66%, of the City's revenue comes from charges for services. (See Figure A-3.) Less than 1% comes from operating and capital grants and contributions, 8% comes from sales taxes, 16% from property taxes and 4% 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 \$11,396,049, 45% of these costs are for water, sewer and sanitation related expenses. The City's expenses cover a range of services, with 30% related to public safety, 6% for public works, 5% for cemetery, 1% for Economic Development and Other, 5% for Subsidies, Donations and other, and 7% general government. (See Figure A-4.)

Figure A-3
Source of Revenue for Fiscal Year 2017

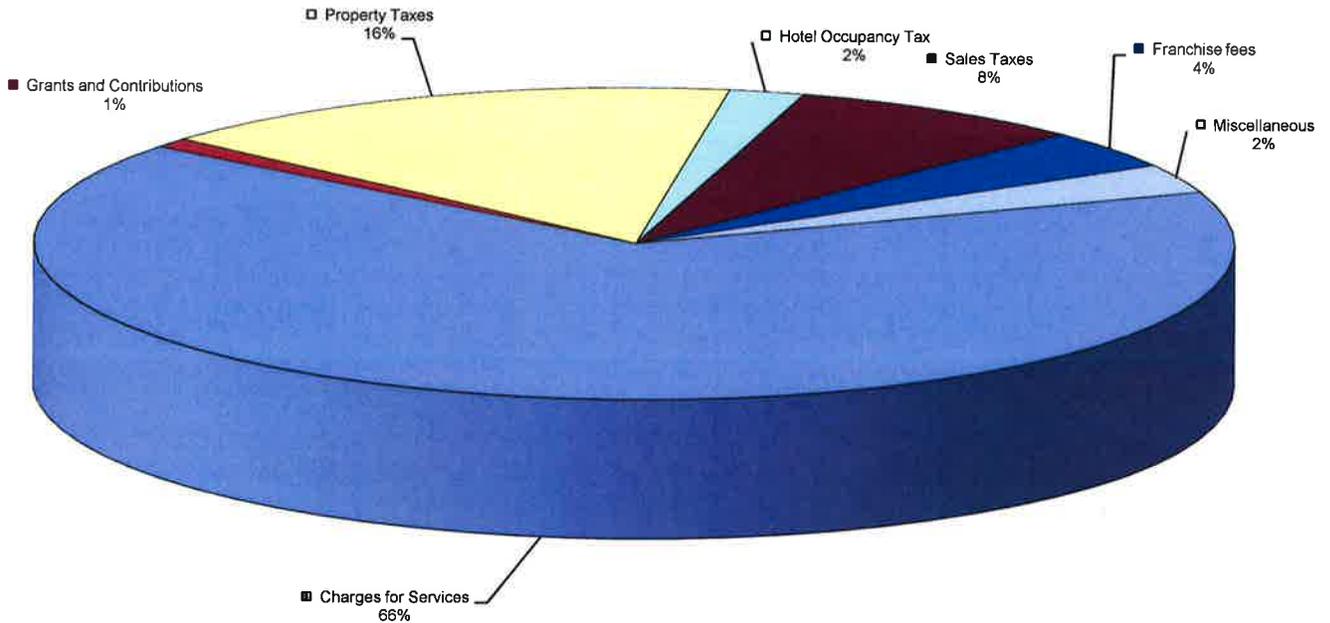
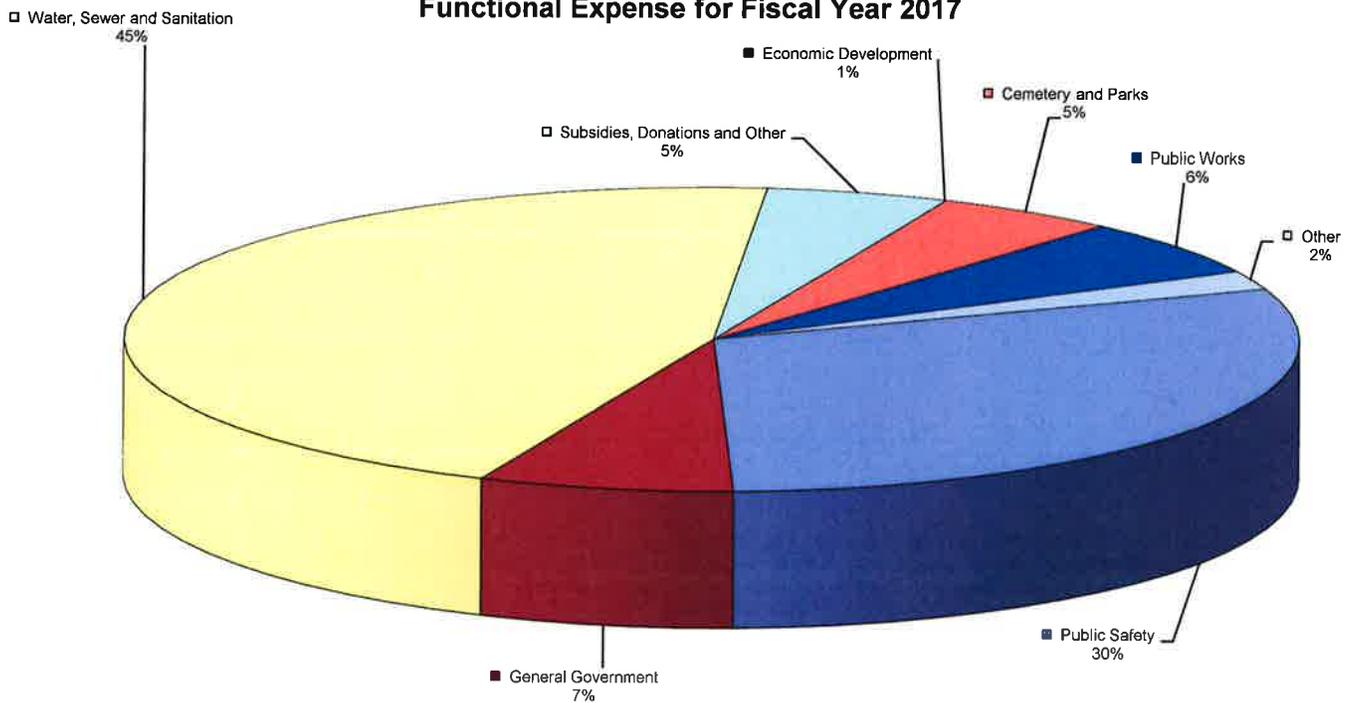


Figure A-4
Functional Expense for Fiscal Year 2017



Governmental Activities

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

Table A-2
Changes in Net Position

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Revenues						
Program revenues						
Charges for services	\$ 1,480,869	\$ 1,452,232	\$ 7,930,896	\$ 7,831,309	\$ 9,411,765	\$ 9,283,541
Operating and capital grants	90,778	233,124	-	-	90,778	233,124
Capital grants and contributions	8,200	38,873	-	-	8,200	38,873
General revenues						
Property taxes	2,317,784	2,232,927	-	-	2,317,784	2,232,927
Sales taxes	1,190,411	1,166,866	-	-	1,190,411	1,166,866
Franchise fees	522,161	546,074	-	-	522,161	546,074
Other taxes	320,651	333,853	-	-	320,651	333,853
Investment earnings	81,575	60,226	46,847	16,593	128,422	76,819
Miscellaneous	188,015	125,698	43,955	57,174	231,970	182,872
Total revenues	6,200,444	6,189,873	8,021,698	7,905,076	14,222,142	14,094,949
Expenses						
General government	826,713	443,555	-	-	826,713	443,555
Public safety	3,376,639	2,073,905	-	-	3,376,639	2,073,905
Public works	713,701	474,346	-	-	713,701	474,346
Cemetery and parks	547,246	396,653	-	-	547,246	396,653
Subsidies, donations, and other	518,678	442,607	-	-	518,678	442,607
Christmas decorations	5,718	4,673	-	-	5,718	4,673
Civic and cultural	170,402	284,454	-	-	170,402	284,454
Economic development	84,867	113,104	-	-	84,867	113,104
Interest	60,363	66,642	-	-	60,363	66,642
Water, sewer and sanitation	-	57,177	5,091,722	4,580,499	5,091,722	4,637,676
Total expenses	6,304,327	4,357,116	5,091,722	4,580,499	11,396,049	8,937,615
Transfers	1,256,139	724,033	(1,256,139)	(724,033)	-	-
Change in net position	1,152,256	2,556,790	1,673,837	2,600,544	2,826,093	5,157,334
Net position - beginning (as originally stated)	7,882,720	5,325,930	13,998,070	11,397,527	21,880,790	16,723,457
Prior period adjustment	-	-	-	-	-	-
Net position - beginning (as restated)	7,882,720	5,325,930	13,998,070	11,397,527	21,880,790	16,723,457
Net position - ending	\$ 9,034,976	\$ 7,882,720	\$ 15,671,907	\$ 13,998,071	\$ 24,706,883	\$ 21,880,791

The most significant fluctuation between years relates to the following:

- Charges for Services increased by \$128,224, which is due to increased usage.
- Capital Grants and Contributions decreased \$173,019 due to 2016 having a fire equipment grant in amount of \$136,147.
- Property tax increased \$84,857 due to both a increase in the taxable values and a small increase in M&O rates.
- Expenses increased overall by \$2,458,434 primarily due to a negative pension cost in 2016 of \$2,514,282.

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 \$6,304,327; however, the amount that our taxpayers paid for these activities through property taxes was \$2,317,784.
- Some of the cost was paid by those who directly benefited from the programs through charges for services of \$1,480,869.

Net Cost of Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2017	2016	2017	2016
General government	\$ 826,713	\$ 443,555	\$ 645,828	\$ 303,195
Public safety	3,376,639	2,073,905	2,255,396	781,232
Public works	713,701	474,346	683,946	441,653
Cemetery and parks	547,246	396,653	324,783	166,239
Economic development	84,867	113,104	84,867	113,104
Subsidies, donations and other	518,678	442,607	498,391	420,316
Christmas decorations	5,718	4,673	504	(1,125)
Civic and cultural	170,402	284,454	170,402	284,454
Interest	60,363	66,642	60,363	66,642
Bond issuance cost	-	57,177	-	57,177
Total	\$ 6,304,327	\$ 4,357,116	\$ 4,724,480	\$ 2,632,887

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Revenues from governmental funds totaled \$6,219,862, an increase of \$60,368 or 1%. The largest increase was an increase in property taxes of \$111,246 or 5%. Grants and donations decreased \$173,019 or 64%.

Expenditures from governmental funds totaled \$6,286,115, a decrease of \$177,001 or 3%. The largest decrease was in civic and culture, a decrease of \$114,052 or 40%. The second largest decrease was in public safety, which was a decrease of \$80,980 or 3%. This was mostly due to having less full-time employees. Transfers to the general fund increased by \$564,053 or 46%.

General Fund Budgetary Highlights

During the prior year, the City's cash flow greatly improved due to continued strong minimum utility rates, a lowered retirement contribution rate to TMRS (Texas Municipal Retirement System) and continued operational expenditure deferrals, including street maintenance and sewer-plant renovation needs. Prior year staff reductions were also held in place, and City Halls' furlough to a 36-hour work week was in place for part of the year.

Property tax revenue increased due to higher tax values and rates. Franchise tax revenue declined slightly with less heating gas sold in prior year's winter. Sales tax increased slightly, mostly due to utility and windmill construction in the area. Water revenue increased due to strong minimum monthly bill rates to more align fixed costs to fixed revenues.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At September 30, 2017, the City had invested in a broad range of capital assets totaling \$23,596,880, including land, equipment, buildings, and vehicles. (See Table A-4.)

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

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Land	\$ 981,029	\$ 981,029	\$ 721,690	\$ 721,690	\$ 1,702,719	\$ 1,702,719
Buildings and improvements	1,418,154	1,465,713	16,211,607	16,813,053	17,629,761	18,278,766
Infrastructure	2,538,692	2,596,470	-	-	2,538,692	2,596,470
Equipment, furniture, fixtures	563,678	651,900	324,111	304,350	887,789	956,250
Vehicles	805,201	736,742	32,718	9,817	837,919	746,559
Total net assets	\$6,306,754	\$6,431,854	\$ 17,290,126	\$ 17,848,910	\$ 23,596,880	\$ 24,280,764

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

For the City's fiscal year 2018, the City plans capital additions including:

GENERAL

Street Seal Coat & Repairs	\$ 400,240
Police Cars	69,018
EMS (Cot for Ambulance)	25,000
Parks - Community Garden	10,000
Solid Waste Disposal (Demo Gibsons Building)	245,000
Total	\$ 749,258

ENTERPRISE

Water Sourceing/Infrastructure	\$ 314,000
Bulk Water Purchases	125,000
Water Department Hydraulic Unit & Compressor	39,000
Water Mains	90,000
Water Wells	78,000
Wastewater Influent Pumps & VFD	150,000
Wastewater SCADA	25,000
Total	\$ 821,000

Long-term Obligations

At September 30, 2017, the City had \$7,819,293 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.

Standard & Poor's had assigned a credit rating of A for the City's General Obligation Bonds.

Table A-5
Long-term Obligations

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Certificates of obligation	\$ 1,129,585	\$ 1,155,162	\$ -	\$ -	\$ 1,129,585	\$ 1,155,162
Capital leases	321,166	460,566	-	8,548	321,166	469,114
Notes payable	463,499	504,992	143,533	180,160	607,032	685,152
Compensated absences	306,976	282,526	96,717	88,370	403,693	370,896
Revenue bonds	-	-	5,357,817	6,045,624	5,357,817	6,045,624
Total	\$ 2,221,226	\$ 2,403,246	\$ 5,598,067	\$ 6,322,702	\$ 7,819,293	\$ 8,725,948

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Increases/Decreases in Revenue

In the General Fund, total budgeted revenues decreased by \$114,026 from 2017 actual revenues. The largest decrease was the budgeted contracts for fire and ambulance which decreased \$183,873 or 100%. Transfers in increased \$363,356. Property tax revenue budgeted for 2018 was materially the same amount as budgeted for 2017, with a decrease of all property tax revenue of \$14,380 or less than 1%. The 2017 rate is \$0.38794 per \$100 of taxable property value for Maintenance and Operation and \$.17677 for the Interest and Sinking Fund. Combined, the rate is above the effective tax rate.

In the Debt Service Fund, the 2017 tax rate is \$.17677 per \$100 of taxable property value. The total amount of municipal debt secured by property taxes is \$665,499.

In the Enterprise Fund, revenues were decreased by \$168,930 or 2% from 2017 actual revenues. Water revenues were decreased \$98,187 or 2.5%.

Decreases/Increases in Expenditures

General Fund expenditures were increased by \$1,171,090 or 20.0% from the actual 2017 expenditures.

Debt Service Fund expenditures decreased \$55,882 or 100%.

In the Enterprise Fund, expenses were increased by \$409,507 or 6% from 2017 actual expenditures. The majority of the 2018 increase is due to a \$417,030 increase in transfers out and in lieu payments.

The adopted budget shows an increase of \$-0- in General Fund Balance and \$523,049 in the Utility (Enterprise) Fund for a total, if realized, of a \$523,049 increase in the City's net position for fiscal-year ending 2018.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

BASIC FINANCIAL STATEMENTS

THE CITY OF VERNON, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2017

	Primary Government		Total	Component Unit
	Governmental Activities	Business-type Activities		
Assets				
Cash and cash equivalents	\$ 5,324,998	\$ 4,270,626	\$ 9,595,624	\$ 1,075,067
Receivables:				
Due from primary government	-	-	-	103,364
Customers (net)	-	707,616	707,616	-
Ambulance (net)	386,961	-	386,961	-
Property taxes (net)	157,559	9	157,568	-
Sales taxes	307,293	-	307,293	-
Hotel occupancy taxes	32,353	-	32,353	-
Franchise fees	175,057	-	175,057	-
Grants	30,000	-	30,000	-
Other	90,522	-	90,522	-
Internal balances	703,214	(703,214)	-	-
Due from fiduciaries	44,177	-	44,177	-
Other assets	-	450	450	-
Assets held for sale	-	-	-	422,247
Restricted assets:				
Cash and cash equivalents	81,690	427,712	509,402	-
Capital assets not being depreciated	981,029	721,690	1,702,719	110,336
Capital assets being depreciated (net)	5,325,725	16,568,436	21,894,161	206,273
Total assets	<u>13,640,578</u>	<u>21,993,325</u>	<u>35,633,903</u>	<u>1,917,287</u>
Deferred Outflows of Resources				
Pension plan related	1,056,019	303,953	1,359,972	-
Deferred loss on refunding debt	-	260,962	260,962	-
Total deferred outflows of resources	<u>1,056,019</u>	<u>564,915</u>	<u>1,620,934</u>	<u>-</u>
Liabilities				
Accounts payable	175,571	162,359	337,930	-
Taxes payable	1,127	8,991	10,118	-
Due to component unit	103,364	-	103,364	-
Due to others	1,279	-	1,279	-
Accrued interest payable	10,249	7,191	17,440	-
Unearned revenues	-	11,486	11,486	-
Customer deposits	-	191,919	191,919	-
Long-term liabilities:				
Portion due or payable within one year	742,269	779,841	1,522,110	163,942
Portion due or payable after one year	1,478,957	4,818,226	6,297,183	1,292,046
Net pension liability	2,783,682	801,227	3,584,909	-
Total liabilities	<u>5,296,498</u>	<u>6,781,240</u>	<u>12,077,738</u>	<u>1,455,988</u>
Deferred Inflows of Resources				
Pension plan related	365,123	105,093	470,216	-
Net Position				
Net investment in capital assets	4,392,504	11,788,776	16,181,280	316,608
Restricted	3,909,446	1,030,867	4,940,313	-
Unrestricted	733,026	2,852,264	3,585,290	144,691
Total net position	<u>\$ 9,034,976</u>	<u>\$ 15,671,907</u>	<u>\$ 24,706,883</u>	<u>\$ 461,299</u>

See accompanying notes to the basic financial statements.

THE CITY OF VERNON, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2017

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 826,713	\$ 180,785	\$ 100	\$ -
Public safety	3,376,639	1,070,235	51,008	-
Public works	713,701	29,755	-	-
Cemetery and parks	547,246	179,807	34,456	8,200
Subsidies, donations and other	518,678	20,287	-	-
Christmas decorations	5,718	-	5,214	-
Civic and cultural	170,402	-	-	-
Economic development	84,867	-	-	-
Interest expense	60,363	-	-	-
Total governmental activities	<u>6,304,327</u>	<u>1,480,869</u>	<u>90,778</u>	<u>8,200</u>
Business-type activities:				
Water	2,060,478	3,804,265	-	-
Sewer	1,055,399	2,359,736	-	-
Sanitation	1,634,234	1,573,662	-	-
Other	341,611	193,233	-	-
Total business-type activities	<u>5,091,722</u>	<u>7,930,896</u>	<u>-</u>	<u>-</u>
Total primary government	<u>\$ 11,396,049</u>	<u>\$ 9,411,765</u>	<u>\$ 90,778</u>	<u>\$ 8,200</u>
Component unit:				
Business Development Corporation of Vernon	<u>\$ 330,885</u>	<u>\$ 25,500</u>	<u>\$ -</u>	<u>\$ -</u>
General revenues and transfers:				
Taxes:				
Property taxes, levied for general purposes				
Property taxes, levied for debt service purposes				
Franchise fees				
Sales taxes				
Hotel occupancy taxes				
Other taxes				
Interest earnings				
Miscellaneous				
Transfers				
Total general revenues and transfers				
Change in net position				
Net position - beginning				
Net position - ending				

See accompanying notes to the basic financial statements.

Net (Expense) Revenue and Changes in Net Position

Primary Government			
Governmental Activities	Business-type Activities	Total	Component Unit
\$ (645,828)	\$ -	\$ (645,828)	\$ -
(2,255,396)	-	(2,255,396)	-
(683,946)	-	(683,946)	-
(324,783)	-	(324,783)	-
(498,391)	-	(498,391)	-
(504)	-	(504)	-
(170,402)	-	(170,402)	-
(84,867)	-	(84,867)	-
(60,363)	-	(60,363)	-
<u>(4,724,480)</u>	<u>-</u>	<u>(4,724,480)</u>	<u>-</u>
-	1,743,787	1,743,787	-
-	1,304,337	1,304,337	-
-	(60,572)	(60,572)	-
-	(148,378)	(148,378)	-
<u>-</u>	<u>2,839,174</u>	<u>2,839,174</u>	<u>-</u>
<u>(4,724,480)</u>	<u>2,839,174</u>	<u>(1,885,306)</u>	<u>-</u>
-	-	-	(305,385)
1,597,753	-	1,597,753	-
720,031	-	720,031	-
522,161	-	522,161	-
1,190,411	-	1,190,411	595,206
314,184	-	314,184	-
6,467	-	6,467	-
81,575	46,847	128,422	2,483
188,015	43,955	231,970	2,946
1,256,139	(1,256,139)	-	-
<u>5,876,736</u>	<u>(1,165,337)</u>	<u>4,711,399</u>	<u>600,635</u>
1,152,256	1,673,837	2,826,093	295,250
<u>7,882,720</u>	<u>13,998,070</u>	<u>21,880,790</u>	<u>166,049</u>
<u>\$ 9,034,976</u>	<u>\$ 15,671,907</u>	<u>\$ 24,706,883</u>	<u>\$ 461,299</u>

THE CITY OF VERNON, TEXAS
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2017

	General	Debt Service Fund	Electric Trust Principal	Other Governmental	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ 1,058,880	\$ 240,004	\$ 2,861,641	\$ 632,692	\$ 4,793,217
Receivables:					
Ambulance (net)	386,961	-	-	-	386,961
Property taxes (net)	122,384	35,175	-	-	157,559
Sales taxes	307,293	-	-	-	307,293
Franchise fees	57,242	-	-	-	57,242
Hotel occupancy taxes	-	-	-	32,353	32,353
Grants	-	-	-	30,000	30,000
Other	90,522	-	-	-	90,522
Due from other funds	103,924	-	-	1,068	104,992
Restricted assets:					
Cash and cash equivalents	81,690	-	-	-	81,690
Total assets	<u>\$ 2,208,896</u>	<u>\$ 275,179</u>	<u>\$ 2,861,641</u>	<u>\$ 696,113</u>	<u>\$ 6,041,829</u>
Liabilities, deferred inflows of resources, and fund balances					
Liabilities:					
Accounts payable	\$ 66,925	\$ -	\$ -	\$ 3,285	\$ 70,210
Taxes payable	1,127	-	-	-	1,127
Due to other funds	3,768	-	-	37,278	41,046
Due to component unit	103,364	-	-	-	103,364
Due to others	-	-	-	1,279	1,279
Total liabilities	<u>175,184</u>	<u>-</u>	<u>-</u>	<u>41,842</u>	<u>217,026</u>
Deferred inflows of resources:					
Unavailable revenues	420,012	33,641	-	-	453,653
Fund balances:					
Restricted	151,996	241,538	2,861,641	654,271	3,909,446
Committed	74,088	-	-	-	74,088
Unassigned	1,387,616	-	-	-	1,387,616
Total fund balances	<u>1,613,700</u>	<u>241,538</u>	<u>2,861,641</u>	<u>654,271</u>	<u>5,371,150</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 2,208,896</u>	<u>\$ 275,179</u>	<u>\$ 2,861,641</u>	<u>\$ 696,113</u>	<u>\$ 6,041,829</u>

See accompanying notes to the basic financial statements.

THE CITY OF VERNON, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2017

Total fund balances - governmental funds (Exhibit A-3)		\$ 5,371,150
Amounts reported for <i>governmental activities</i> in the Statement of Net Position (Exhibit A-1) are different because:		
Capital assets used in governmental activities are not financial resources and therefore not reported in the funds. Capital assets at year-end consist of:		
Gross capital assets	\$ 10,643,258	
Related accumulated depreciation	<u>4,336,504</u>	6,306,754
Property taxes receivable are not available to pay for current period expenditures and therefore are deferred inflows of resources in the funds.		150,812
Ambulance fees receivable are not available to pay for current period expenditures and therefore are deferred inflows of resources in the funds.		302,841
Franchise fees receivables are only recognized at the fund level when they are measurable and available within 60 days of year-end. Franchise fees receivables are recognized as they are earned at the government-wide level.		117,815
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:		
Bonds payable	1,006,094	
Bonds premiums	123,491	
Capital leases	321,166	
Notes payable	463,499	
Compensated absences	<u>306,976</u>	(2,221,226)
Interest payable on long-term debt is not due and payable in the current period and therefore not reported as liabilities in the funds. Accrued interest at year-end was:		(10,249)
The City's net pension liability and related deferred outflows and inflows related to its participation in the Texas Municipal Retirement System do not meet criteria to be reported in the governmental funds financial statements. These items consist of:		
Deferred outflows of resources - pension plan related	1,056,019	
Net pension liability	(2,783,682)	
Deferred inflows of resources - pension plan related	<u>(365,123)</u>	(2,092,786)
The assets and liabilities of the internal service funds are included in the governmental activities in the Statement of Net Position.		<u>1,109,865</u>
Total net position - governmental activities (Exhibit A-1)		<u><u>\$ 9,034,976</u></u>

See accompanying notes to the basic financial statements.

THE CITY OF VERNON, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2017

	General	Debt Service	Electric Trust Principal	Other Governmental	Total Governmental Funds
Revenues					
Property taxes	\$ 1,595,480	\$ 710,164	\$ -	\$ -	\$ 2,305,644
Franchise fees	548,455	-	-	-	548,455
Sales taxes	1,190,411	-	-	-	1,190,411
Hotel occupancy taxes	-	-	-	314,184	314,184
Other taxes	6,467	-	-	-	6,467
Licenses and permits	16,566	-	-	-	16,566
Cemetery income	69,025	-	-	-	69,025
Contracts	183,873	-	-	-	183,873
Swimming pool	83,323	-	-	-	83,323
Ambulance service	789,901	-	-	-	789,901
Administrative charges to other funds	252,095	-	-	-	252,095
Fines and fees	121,890	-	-	4,488	126,378
Grants and donations	100	-	-	98,878	98,978
Investment earnings	14,717	3,463	32,917	6,605	57,702
Other revenues	172,486	3,604	-	770	176,860
Total revenues	<u>5,044,789</u>	<u>717,231</u>	<u>32,917</u>	<u>424,925</u>	<u>6,219,862</u>
Expenditures					
General government	786,894	-	-	8,175	795,069
Public safety	3,052,263	-	-	42,745	3,095,008
Public works	629,418	-	-	-	629,418
Cemetery and parks	491,020	-	-	-	491,020
Subsidies, donations and other	518,678	-	-	-	518,678
Christmas decorations	-	-	-	5,718	5,718
Civic and cultural	-	-	-	170,402	170,402
Economic development	-	-	-	84,867	84,867
Capital outlay	219,425	-	-	8,200	227,625
Debt service:					
Principal	180,893	18,906	-	-	199,799
Interest charges	31,535	36,976	-	-	68,511
Total expenditures	<u>5,910,126</u>	<u>55,882</u>	<u>-</u>	<u>320,107</u>	<u>6,286,115</u>
Excess of revenues over (under) expenditures	<u>(865,337)</u>	<u>661,349</u>	<u>32,917</u>	<u>104,818</u>	<u>(66,253)</u>
Other Financing Sources (Uses)					
Proceeds from sale of capital assets	11,435	-	-	-	11,435
Proceeds from sale of perpetual care spaces	-	-	-	4,155	4,155
Transfers in	1,787,097	-	-	-	1,787,097
Transfers out	(8,729)	(468,555)	(23,274)	(30,400)	(530,958)
Total other financing sources (uses)	<u>1,789,803</u>	<u>(468,555)</u>	<u>(23,274)</u>	<u>(26,245)</u>	<u>1,271,729</u>
Net change in fund balance	924,466	192,794	9,643	78,573	1,205,476
Fund balances - beginning	<u>689,234</u>	<u>48,744</u>	<u>2,851,998</u>	<u>575,698</u>	<u>4,165,674</u>
Fund balances - ending	<u>\$ 1,613,700</u>	<u>\$ 241,538</u>	<u>\$ 2,861,641</u>	<u>\$ 654,271</u>	<u>\$ 5,371,150</u>

See accompanying notes to the basic financial statements.

THE CITY OF VERNON, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2017

Net change in fund balances - total governmental funds (Exhibit A-5)	\$ 1,205,476
Amounts reported for <i>governmental activities</i> in the Statement of Activities (Exhibit A-2) are different because:	
Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense. The net difference between the two is as follows:	
Capital outlay during the year	\$ 227,625
Depreciation expense for the year	<u>352,445</u> (124,820)
The net book value of the capital assets disposed of during the year are not applied against the related proceeds in the governmental funds. However, they are in the governmental activities. The net book value of the capital assets disposed of during the year was:	(280)
Because certain receivables will not be collected for several months after the City's fiscal year ends, they are not considered 'available' revenues and are deferred in the governmental funds. The deferred inflow portions changed by these amounts this year:	
Property taxes	12,140
Ambulance fees	(44,447)
Franchise fees	<u>(26,294)</u> (58,601)
Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. Principal payments during the year were:	
Bonds payable	18,906
Notes payable	41,493
Capital leases payable	<u>139,400</u> 199,799
Accrued interest payable from the beginning of the year to the end of the year changed by:	1,477
Compensated absences are reported as the amount is earned in the Statement of Activities, but as paid in the governmental funds. During the year, the liability changed by:	(24,450)
The amortization of the bond premium for the year was:	6,671
The City participates in an agent multiple-employer defined benefit pension plan. Contributions to the plan are expenditures at the fund level when payments are due. At the government-wide level, pension expenses are recognized on an actuarial basis. Payments were less than the actuarial expense in the current year.	(89,880)
The internal service funds' activities related to the General Fund are included in the Statement of Activities of the governmental activities.	<u>36,864</u>
Change in net position of governmental activities (Exhibit A-2)	<u><u>\$ 1,152,256</u></u>

See accompanying notes to the basic financial statements.

THE CITY OF VERNON, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2017

	<u>Enterprise Fund</u>	<u>Internal Service Funds</u>
	<u>Utility Fund</u>	
Assets		
Current assets:		
Cash and cash equivalents	\$ 4,270,626	\$ 531,781
Receivables:		
Customers (net)	707,616	-
Property taxes (net)	9	-
Due from other funds	29,654	-
Other assets	450	6,389
Note receivable, current portion	-	88,726
Restricted assets:		
Cash and cash equivalents	427,712	-
Total current assets	<u>5,436,067</u>	<u>626,896</u>
Long-term assets:		
Note receivable, net of current portion	-	695,400
Capital assets not being depreciated	721,690	-
Capital assets being depreciated (net)	16,568,436	-
Total long-term assets	<u>17,290,126</u>	<u>695,400</u>
Total assets	<u>22,726,193</u>	<u>1,322,296</u>
Deferred Outflows of Resources:		
Pension plan related	303,953	-
Deferred loss on refunding debt	260,962	-
Total deferred outflows of resources	<u>564,915</u>	<u>-</u>
Liabilities		
Current liabilities:		
Accounts payable	162,359	105,361
Taxes payable	8,991	-
Due to other funds	3,992	45,431
Accrued interest payable	13,580	-
Unearned revenues	11,486	-
Customer deposits	191,919	-
Current maturities of long-term obligations	868,567	-
Total current liabilities	<u>1,260,894</u>	<u>150,792</u>
Long-term liabilities:		
Long-term obligations, less current maturities	5,513,626	-
Net pension liability	801,227	-
Total long-term liabilities	<u>6,314,853</u>	<u>-</u>
Total liabilities	<u>7,575,747</u>	<u>150,792</u>
Deferred Inflows of Resources:		
Pension plan related	105,093	-
Net Position		
Net investment in capital assets	11,788,776	-
Restricted	1,030,867	-
Unrestricted	2,790,625	1,171,504
Total net position	<u>15,610,268</u>	<u>\$ 1,171,504</u>
Reconciliation to government-wide statement of net position:		
Adjustment to reflect the consolidation of the Internal Service Funds' activities related to the Enterprise Fund	61,639	
Net position of business-type activities	<u>\$ 15,671,907</u>	

See accompanying notes to the basic financial statements.

THE CITY OF VERNON, TEXAS
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Enterprise Fund	Internal Service Funds
	Utility Fund	
Operating revenues:		
Water revenues	\$ 3,802,084	\$ -
Sewer revenues	2,358,489	-
Sanitation revenues	1,573,453	-
Charges and fees	-	905,689
Late fees	137,518	-
Other revenues	55,087	-
Total operating revenues	<u>7,926,631</u>	<u>905,689</u>
Operating expenses:		
Billing and collection	255,247	-
Water	1,541,068	-
Sewer	733,072	-
Sanitation	1,527,544	-
Insurance claims and related	-	888,433
Bad debts	106,477	-
Depreciation	693,180	-
Other operating expenses	46,994	-
Total operating expenses	<u>4,903,582</u>	<u>888,433</u>
Operating income	<u>3,023,049</u>	<u>17,256</u>
Nonoperating revenues (expenses):		
Interest income	46,847	23,873
Rent income	30,975	-
Bad debt recoveries	12,980	-
Interest expense	(188,140)	-
Total nonoperating revenues (expenses)	<u>(97,338)</u>	<u>23,873</u>
Income before transfers	<u>2,925,711</u>	<u>41,129</u>
Transfers in	477,284	-
Transfers out	(1,733,423)	-
Net transfers	<u>(1,256,139)</u>	<u>-</u>
Change in net position	1,669,572	41,129
Net position - beginning	<u>13,940,696</u>	<u>1,130,375</u>
Net position - ending	15,610,268	<u>\$ 1,171,504</u>
Reconciliation to government-wide statement of activities:		
Adjustment to reflect the consolidation of the Internal Service		
Funds' activities related to the Enterprise Fund	4,265	
Change in net position of the business-type activities	<u>\$ 1,673,837</u>	

See accompanying notes to the basic financial statements.

THE CITY OF VERNON, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
SEPTEMBER 30, 2017

	Enterprise Fund	Internal Service Funds
	Utility Fund	
Cash flows from operating activities:		
Received from customers	\$ 7,854,977	\$ 905,689
Payments to suppliers	(3,360,880)	-
Payments to employees	(800,024)	-
Payments to claimants/beneficiaries	-	(832,431)
Net cash provided by operating activities	<u>3,694,073</u>	<u>73,258</u>
Cash flows from noncapital financing activities:		
Change in customer deposits	6,234	-
Bad debt recoveries	12,980	-
Transfers from other funds	477,284	-
Transfers to other funds	(1,733,423)	-
Net cash used by noncapital financing activities	<u>(1,236,925)</u>	<u>-</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(134,396)	-
Principal paid on long-term debt	(792,806)	-
Interest paid on long-term debt	(198,890)	-
Net cash used by capital and related financing activities	<u>(1,126,092)</u>	<u>-</u>
Cash flows from investing activities:		
Principal payments on note receivable	-	86,537
Interest on investments	46,847	25,106
Rents received	42,461	-
Net cash provided by investing activities	<u>89,308</u>	<u>111,643</u>
Net Increase in Cash and Cash Equivalents	1,420,364	184,901
Cash and Cash Equivalents - Beginning	3,277,974	346,880
Cash and Cash Equivalents - Ending	<u>\$ 4,698,338</u>	<u>\$ 531,781</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating income	\$ 3,023,049	\$ 17,256
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	693,180	-
Amortization	(12,614)	-
(Increase) decrease in current assets and deferred outflows of resources:		
Customer utility receivables	(57,535)	-
Property taxes receivable	2	-
Due from other funds	(25,914)	-
Deferred outflows of resources	74,377	-
Increase (decrease) in current liabilities and deferred inflows of resources:		
Accounts payable	(6,518)	10,571
Taxes payable	2,588	-
Due to other funds	307	45,431
Unearned revenues	11,486	-
Compensated absences	8,347	-
Net pension liability	(25,747)	-
Deferred inflows of resources	9,065	-
Total adjustments	<u>671,024</u>	<u>56,002</u>
Net cash provided by operating activities	<u>\$ 3,694,073</u>	<u>\$ 73,258</u>
Reconciliation of Cash and Cash Equivalents on the Statement of Net Position to the Statement of Cash Flows:		
Cash and cash equivalents	\$ 4,270,626	\$ 531,781
Restricted assets - cash and cash equivalents	427,712	-
Total cash and cash equivalents - ending	<u>\$ 4,698,338</u>	<u>\$ 531,781</u>

See accompanying notes to the basic financial statements.

THE CITY OF VERNON, TEXAS
STATEMENT OF ASSETS AND LIABILITIES
FIDUCIARY FUNDS
SEPTEMBER 30, 2017

	<u>Agency Funds</u>
Assets	
Cash and cash equivalents	\$ 92,517
Total assets	<u>\$ 92,517</u>
Liabilities	
Payable to others	\$ 48,340
Due to other funds	44,177
Total liabilities	<u>\$ 92,517</u>

See accompanying notes to the basic financial statements.

THE CITY OF VERNON, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Budgeted Amounts		Actual	Variance With Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Property taxes	\$ 1,515,936	\$ 1,580,256	\$ 1,595,480	\$ 15,224
Franchise fees	630,000	522,881	548,455	25,574
Sales taxes	1,173,190	1,173,190	1,190,411	17,221
Other taxes	4,726	6,467	6,467	-
Licenses and permits	8,200	16,710	16,566	(144)
Cemetery income	53,355	71,335	69,025	(2,310)
Contracts	155,840	169,877	183,873	13,996
Swimming pool	87,700	83,497	83,323	(174)
Ambulance service	675,000	690,259	789,901	99,642
Administrative charges to other funds	272,759	272,759	252,095	(20,664)
Fines and fees	62,008	53,227	121,890	68,663
Grants and donations	-	100	100	-
Investment earnings	3,200	12,593	14,717	2,124
Other revenues	81,120	35,070	172,486	137,416
Total revenues	<u>4,723,034</u>	<u>4,688,221</u>	<u>5,044,789</u>	<u>356,568</u>
Expenditures				
General government	840,698	722,283	786,894	(64,611)
Public safety	3,210,880	3,111,239	3,052,263	58,976
Public works	677,357	627,550	629,418	(1,868)
Cemetery and parks	523,082	518,616	491,020	27,596
Subsidies, donations and other	466,221	471,638	518,678	(47,040)
Capital outlay	204,700	224,349	219,425	4,924
Debt service:				
Principal	182,908	187,600	180,893	6,707
Interest charges	30,645	31,590	31,535	55
Total expenditures	<u>6,136,491</u>	<u>5,894,865</u>	<u>5,910,126</u>	<u>(15,261)</u>
Excess of revenues over (under) expenditures	<u>(1,413,457)</u>	<u>(1,206,644)</u>	<u>(865,337)</u>	<u>341,307</u>
Other Financing Sources (Uses)				
Proceeds from the sale of capital assets	8,000	9,409	11,435	2,026
Transfers in	1,776,657	1,787,557	1,787,097	(460)
Transfers out	-	-	(8,729)	8,729
Total other financing sources (uses)	<u>1,784,657</u>	<u>1,796,966</u>	<u>1,789,803</u>	<u>(7,163)</u>
Net change in fund balance	371,200	590,322	924,466	334,144
Fund balances - beginning	<u>689,234</u>	<u>689,234</u>	<u>689,234</u>	<u>-</u>
Fund balances - ending	<u>\$ 1,060,434</u>	<u>\$ 1,279,556</u>	<u>\$ 1,613,700</u>	<u>\$ 334,144</u>

See accompanying notes to the basic financial statements.

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

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

B. Basis of Presentation

Government-wide Financial Statements

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

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2017

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

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

Fund Financial Statements

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

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

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

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

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

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

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2017

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

The City reports the following major governmental funds:

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

The Debt Service Fund is used to account for the annual debt service requirements of the City's bonded debt.

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

The City reports the following major enterprise fund:

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

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

Other Governmental Funds include the Special Revenue Funds.

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

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

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

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

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2017

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

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

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

D. Budget Policies

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

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

E. Assets, Liabilities and Net Position or Equity

1. Cash, Cash Equivalents and Investments

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

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

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2017

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

2. Property Taxes

Property taxes attach as an enforceable lien on property as of January 1 of the prior year. Taxes are levied on October 1, and do not begin to accrue interest until February 1. The City is permitted by the Municipal Finance Law of the State of Texas to levy taxes (exclusive of those amounts levied to service long-term debt) up to \$2.25 per \$100 of assessed valuation. The City's tax rate for the current year was \$.38721 per \$100 in assessed valuation. Additionally, the City levied a tax for debt service of \$.17750 per \$100 in assessed valuation; therefore, the total tax rate was \$.56471 per \$100 in assessed valuation.

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

3. Inventories and Prepaid Items

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

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

4. Assets Held for Sale

Assets held for sale consists of land and buildings that were purchased or donated to be sold to third parties. Those assets are carried at the lower of cost or fair market value.

5. Capital Assets

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

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

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

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2017

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

6. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. Certain amounts related to the City's participation in a pension plan (see Note 10) are reported in this category, along with deferred losses on bond refunding.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflow of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has three types of items that qualify for reporting in this category. Property taxes receivable (\$150,812) and ambulance receivables (\$302,841) are unavailable and therefore cannot be recognized as revenue in the governmental funds until they are received. There are also certain items related to the City's participation in a pension plan (see Note 10) that is reported in this category.

7. 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.

8. Long-Term Obligations

Long-term debt and other obligations for general government purposes are recorded in the government-wide statement of net position. Long-term debt and other obligations financed by the Utility Fund are reported as liabilities in that fund.

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

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2017

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

9. 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).

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

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

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

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

When an expenditure is incurred for a purpose for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first.

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

10. Transactions Between Funds

Outstanding balances between funds are reported as "due to/from other funds." Any residual balances between governmental activities and business-type activities are reported in the government-wide statements as "internal balances." Nonrecurring or non-routine transfers of equity between funds are accounted for as transfers.

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2017

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

11. Risk Management

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

12. 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.

13. Pension Plan

For purposes of measuring the net pension liability, deferred outflows of resources, and deferred inflows of resources related to pensions, and pension expense, information about the Fiduciary Net Position of the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS's Fiduciary Net Position have been determined on the same basis as they are reported to TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

2. COMPLIANCE AND ACCOUNTABILITY

A. Finance-Related Legal and Contractual Provisions

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

- For the year ended September 30, 2017, the City overexpended the General Fund in two functional areas and in total (see Exhibit A-11). The City will be more diligent in monitoring its actual expenditures compared to the City's adopted budget in future years.

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

As of September 30, 2017, there were no funds with a deficit fund balance or deficit net position balance.

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2017

3. DEPOSITS AND INVESTMENTS

A. Deposits

All of the City's demand and time depository accounts are held in local banking institutions. At September 30, 2017, the carrying amount of the City's deposits (cash and interest-bearing savings accounts included in temporary investments) was \$10,197,543 and the bank balance was \$10,481,718, including fiduciary accounts. The City's cash deposits at September 30, 2017, and during the year ended September 30, 2017, were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name.

All of the BDC's demand and time depository accounts are held in local banking institutions. At September 30, 2017, the carrying amount of the Corporation's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$1,075,067 and the bank balance was \$1,075,067. The Corporation's cash deposits at September 30, 2017, and during the year ended September 30, 2017, were entirely covered by FDIC insurance.

B. Investments

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

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

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

The City's investments at September 30, 2017 are shown below and are included in the Cash and cash equivalents caption on Exhibit A-1:

<u>Investment or Investment Type</u>	<u>Weighted Maturity (Days)</u>	<u>Fair Value</u>
Money market and savings accounts	1	<u>\$2,861,641</u>

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2017

3. DEPOSITS AND INVESTMENTS (CONT'D.)

The BDC's investments at September 30, 2017 are shown below:

<u>Investment or Investment Type</u>	<u>Weighted Maturity (Days)</u>	<u>Fair Value</u>
Money market accounts	1	<u>\$402,166</u>

The City categorizes its fair value measurements with the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy below. In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The City's assessment of the significance of particular inputs to these fair value measurements requires judgement and considers factors specific to each asset or liability.

C. Analysis of Specific Deposit and Investment Risks

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

1. Credit Risk

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

2. Custodial Credit Risk

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

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

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

3. Concentration of Credit Risk

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

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2017

3. DEPOSITS AND INVESTMENTS (CONT'D.)

4. Interest Rate Risk

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

5. Foreign Currency Risk

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

4. RECEIVABLES

Receivables and related allowances for uncollectibles consisted of the following items on September 30, 2017:

	<u>Gross</u> <u>Receivable</u>	<u>Allowance</u>	<u>Net</u> <u>Receivable</u>
General Fund:			
Ambulance	\$1,182,752	\$795,791	\$386,961
Property taxes	183,349	60,965	122,384
Sales taxes	307,293	-	307,293
Franchise fees	57,242	-	57,242
Other	90,522	-	90,522
Debt Service Fund:			
Property taxes	37,713	2,538	35,175
Other Governmental Funds:			
Hotel occupancy taxes	32,353	-	32,353
Grants	30,000	-	30,000
Utility Fund:			
Customers	759,584	51,968	707,616
Property taxes	1,918	1,909	9

The City expects to collect substantially all of the net receivables within one year, except for ambulance fees and property taxes. The City anticipates collecting \$150,000 of the ambulance fees and \$60,000 of the property tax receivable within one year, which is similar to the current year.

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2017

5. CAPITAL ASSETS

Capital asset activity for governmental activities for the year ended September 30, 2017 was as follows:

Governmental activities:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Capital assets not being depreciated:				
Land	\$ 981,029	\$ -	\$ -	\$ 981,029
Capital assets being depreciated:				
Buildings and improvements	2,307,157	8,200	-	2,315,357
Infrastructure	2,812,648	-	-	2,812,648
Equipment, furniture, fixtures, etc.	2,050,199	40,420	42,166	2,048,453
Vehicles	<u>2,414,360</u>	<u>179,005</u>	<u>107,594</u>	<u>2,485,771</u>
Total capital assets being depreciated	<u>9,584,364</u>	<u>227,625</u>	<u>149,760</u>	<u>9,662,229</u>
Less accumulated depreciation for:				
Buildings and improvements	841,444	55,759	-	897,203
Infrastructure	216,178	57,778	-	273,956
Equipment, furniture, fixtures, etc.	1,398,299	128,362	41,886	1,484,775
Vehicles	<u>1,677,618</u>	<u>110,546</u>	<u>107,594</u>	<u>1,680,570</u>
Total accumulated depreciation	<u>4,133,539</u>	<u>352,445</u>	<u>149,480</u>	<u>4,336,504</u>
Total capital assets being depreciated, net	<u>5,450,825</u>	(124,820)	280	<u>5,325,725</u>
Governmental activities capital assets, net	<u>\$6,431,854</u>	(\$124,820)	\$ 280	<u>\$6,306,754</u>

Depreciation expense was charged to departments as follows:

General Government	\$ 15,961
Public Safety	210,592
Public Works	75,354
Cemetery and Parks	<u>50,538</u>
	<u>\$352,445</u>

Business-type activities:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Capital assets not being depreciated:				
Land	\$ 721,690	\$ -	\$ -	\$ 721,690
Capital assets being depreciated:				
Buildings and improvements	28,189,696	34,112	-	28,223,808
Equipment, furniture, fixtures, etc.	1,329,467	67,770	7,193	1,390,044
Vehicles	<u>316,496</u>	<u>32,514</u>	<u>-</u>	<u>349,010</u>
Total capital assets being depreciated	<u>29,835,659</u>	<u>134,396</u>	<u>7,193</u>	<u>29,962,862</u>
Less accumulated depreciation for:				
Buildings and improvements	11,376,643	635,558	-	12,012,201
Equipment, furniture, fixtures, etc.	1,025,117	48,009	7,193	1,065,933
Vehicles	<u>306,679</u>	<u>9,613</u>	<u>-</u>	<u>316,292</u>
Total accumulated depreciation	<u>12,708,439</u>	<u>693,180</u>	<u>7,193</u>	<u>13,394,426</u>
Total capital assets being depreciated, net	<u>17,127,220</u>	(558,784)	-	<u>16,568,436</u>
Business-type activities capital assets, net	<u>\$17,848,910</u>	(\$558,784)	\$ -	<u>\$17,290,126</u>

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2017

5. CAPITAL ASSETS (CONT'D.)

Depreciation expense was charged to departments as follows:

Business-type activities:	
Water	\$415,942
Sewer	273,108
Sanitation	<u>4,130</u>
	<u>\$693,180</u>

Business Development Corporation:

	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets not being depreciated:				
Land	\$ 99,092	\$ -	\$ -	\$ 99,092
Website development (in progress)	<u>11,244</u>	<u>-</u>	<u>-</u>	<u>11,244</u>
Total capital assets not being depreciated	<u>110,336</u>	<u>-</u>	<u>-</u>	<u>110,336</u>
Capital assets being depreciated:				
Buildings and improvements	567,880	11,859	195,023	384,716
Equipment, furniture, fixtures, etc.	<u>15,338</u>	<u>-</u>	<u>-</u>	<u>15,338</u>
Total capital assets being depreciated	<u>583,218</u>	<u>11,859</u>	<u>195,023</u>	<u>400,054</u>
Less accumulated depreciation for:				
Buildings and improvements	166,441	11,847	-	178,288
Equipment, furniture, fixtures, etc.	<u>15,117</u>	<u>377</u>	<u>-</u>	<u>15,494</u>
Total accumulated depreciation	<u>181,558</u>	<u>12,224</u>	<u>-</u>	<u>193,782</u>
Total capital assets being depreciated, net	<u>401,660</u>	<u>(365)</u>	<u>195,023</u>	<u>206,272</u>
BDC capital assets, net	<u>\$511,996</u>	<u>(\$ 365)</u>	<u>\$195,023</u>	<u>\$316,608</u>

6. INTERFUND BALANCES AND ACTIVITY

A. Due To and From Other Funds

Balances due to and due from other funds at September 30, 2017 consisted of the following:

Due to Fund	Due From Fund	Amount	Purpose
General Fund	Other Governmental Funds	\$ 37,278	Short-term borrowings
General Fund	Enterprise Fund	2,924	Short-term borrowings
General Fund	Internal Service Funds	19,545	Short-term borrowings
General Fund	Agency Fund	44,177	Short-term borrowings
Other Governmental Funds	Enterprise Fund	1,068	Short-term borrowings
Enterprise Fund	General Fund	3,768	Short-term borrowings
Enterprise Fund	Internal Service Funds	<u>25,886</u>	Short-term borrowings
Total		<u>\$134,646</u>	

All amounts are scheduled to be repaid within one year.

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2017

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

B. Transfers To and From Other Funds

Transfers to and from other funds at September 30, 2017 consisted of the following:

<u>Transfers To</u>	<u>Transfers From</u>	<u>Amount</u>	<u>Reason</u>
General Fund	Electric Trust Principal	\$ 23,274	Interest transfer
General Fund	Other Governmental Funds	30,400	Park contributions
General Fund	Enterprise Fund	1,733,423	Payment in lieu of taxes
Enterprise Fund	General Fund	8,729	Excess transfer refund
Enterprise Fund	Debt Service Fund	<u>468,555</u>	Debt service payments
Total		<u>\$2,264,381</u>	

C. Long-term Borrowing

Long-term borrowing consists of the following:

The Utility Fund has a note payable to the Employee Benefit Trust Fund, which is part of the City's Internal Service Fund. The note is due in monthly payments of \$8,943 of principal and interest at 2.50% per annum beginning October 31, 2015 through October 31, 2025. The note is unsecured.	<u>\$784,126</u>
Related accrued interest at September 30, 2017	<u>6,389</u>
Total interfund long-term borrowings at September 30, 2017	<u>\$790,515</u>

The debt service requirements of the interfund long-term borrowing is as follows:

<u>Year Ended September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 88,726	\$ 18,591	\$107,317
2019	90,970	16,347	107,317
2020	93,270	14,047	107,317
2021	95,629	11,688	107,317
2022	98,047	9,270	107,317
2023-2026	<u>317,484</u>	<u>12,698</u>	<u>330,182</u>
Totals	<u>\$784,126</u>	<u>\$ 82,641</u>	<u>\$866,767</u>

This interfund borrowing is reported in the fund level financial statements as a note receivable and accrued interest income in the Internal Service Fund and as long-term debt and accrued interest payable in the Utility Fund. However, it is netted into the internal balance captions in the government-wide Statement of Net Position at September 30, 2017.

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2017

7. LONG-TERM OBLIGATIONS

A. Long-term Obligation Activity

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the period ended September 30, 2017 are as follows:

	<u>Beginning</u> <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u> <u>Balance</u>	<u>Amount</u> <u>Due Within</u> <u>One Year</u>
<u>Governmental Activities:</u>					
Bonds payable	\$1,025,000	\$ -	\$ 18,906	\$1,006,094	\$ 20,257
Bond premiums	130,162	-	6,671	123,491	-
Capital leases	460,566	-	139,400	321,166	32,220
Notes payable	504,992	-	41,493	463,499	444,212
Compensated absences *	<u>282,526</u>	<u>217,552</u>	<u>193,102</u>	<u>306,976</u>	<u>245,580</u>
Total governmental activities	<u>\$2,403,246</u>	<u>\$217,552</u>	<u>\$399,572</u>	<u>\$2,221,226</u>	<u>\$742,269</u>
<u>Business-type Activities:</u>					
Bonds payable	\$5,555,000	\$ -	\$661,094	\$4,893,906	\$684,743
Bond premiums	490,624	-	26,713	463,911	-
Capital leases	8,548	-	8,548	-	-
Notes payable	180,160	-	36,627	143,533	37,068
Compensated absences *	<u>88,370</u>	<u>45,649</u>	<u>37,302</u>	<u>96,717</u>	<u>58,030</u>
Total business-type activities	<u>\$6,322,702</u>	<u>\$ 45,649</u>	<u>\$770,284</u>	<u>\$5,598,067</u>	<u>\$779,841</u>
<u>Business Development Corporation</u>					
Notes payable	<u>\$1,602,728</u>	<u>\$ -</u>	<u>\$146,740</u>	<u>\$1,455,988</u>	<u>\$151,062</u>

* - Other long-term liabilities

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

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

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2017

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

B. Outstanding Bonds

Bonds payable at September 30, 2017, including net unamortized premiums on the bonds, are comprised of the following:

<u>Description</u>	<u>Bonds Authorized</u>	<u>Range of Interest Rates</u>	<u>Final Maturity Date</u>	<u>Annual Serial Payments</u>	<u>Bonds Outstanding at 9/30/17</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Tax and Waterworks and Sewer System Surplus Revenue Certificates of Obligation, Series 2009 Plus bond premium	\$3,175,000	3.00%	3/15/2019	\$85,000	\$ 170,000	\$ -	\$ 170,000
					2,685	-	2,685
General Obligation Refunding Bonds, Series 2010	3,050,000	2.00% to 3.00%	3/15/2020	\$140,000 to \$385,000	900,000	-	900,000
General Obligation Refunding Bonds, Series 2012 Plus bond premium	1,850,000	2.00% to 3.00%	3/15/2023	\$160,000 to \$205,000	1,105,000	-	1,105,000
					70,500	-	70,500
General Obligation Refunding Bonds, Series 2016 Plus bond premium	3,795,000	2.00% to 4.00%	3/15/2036	\$70,000 to \$200,000	3,725,000	1,006,094	2,718,906
					<u>514,217</u>	<u>123,491</u>	<u>390,726</u>
Total all bonds					<u>\$6,487,402</u>	<u>\$1,129,585</u>	<u>\$5,357,817</u>

C. Debt Service Requirements on Long-Term Bonds

Debt service requirements on long-term bonds at September 30, 2017 are as follows:

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 20,257	\$ 36,584	\$ 56,841
2019	18,906	36,192	55,098
2020	43,215	35,355	78,570
2021	45,916	34,018	79,934
2022	60,771	32,418	93,189
2023-2027	297,101	132,770	429,871
2028-2032	302,504	71,359	373,863
2033-2036	<u>217,424</u>	<u>17,907</u>	<u>235,331</u>
Totals	<u>\$1,006,094</u>	<u>\$396,603</u>	<u>\$1,402,697</u>

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2017

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

<u>Year Ending September 30,</u>	<u>Business-type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 684,743	\$ 154,028	\$ 838,771
2019	691,094	134,346	825,440
2020	436,785	117,895	554,680
2021	309,084	106,707	415,791
2022	359,229	96,682	455,911
2023-2027	1,007,899	361,880	1,369,779
2028-2032	817,496	192,841	1,010,337
2033-2036	<u>587,576</u>	<u>48,393</u>	<u>635,969</u>
Totals	<u>\$4,893,906</u>	<u>\$1,212,772</u>	<u>\$6,106,678</u>

D. Capital Lease

The commitment under the capitalized lease agreement for equipment provides for minimum future lease payments as of September 30, 2017 as follows:

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>
2018	\$ 40,361
2019	40,361
2020	40,361
2021	40,361
2022	40,951
2023-2026	<u>163,807</u>
Total minimum lease payments	366,202
Less amount representing interest	(45,036)
Present value of minimum lease payments	<u>\$321,166</u>

The effective interest rate on the capital lease is 3.95%.

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

	<u>Governmental Activities</u>
Vehicle	\$543,393
Less accumulated depreciation	(148,527)
Net	<u>\$394,866</u>

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2017

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

E. Notes Payable

The City has notes payable at September 30, 2017 as follows:

Governmental Activities:

Note payable to the Waggoner National Bank to finance the balance of the aquatics center. The note was due in February 2019 with accrued interest at 4.25% and was unsecured. However, the note was paid in full in October 2017; therefore, the full amount is reported as current. \$419,107

Note payable to the Bank of the West to finance the purchase of an ambulance. The note is due in monthly principal payments of \$2,166 plus interest at 2.74% per annum through July 1, 2019. The note is secured by the ambulance. 44,392

Total governmental activities 463,499

Business-type Activities:

Note payable to the Bank of the West to finance various equipment purchases. The note is due in monthly payments of \$666 of principal and interest at 2.99% per annum through September 15, 2018. The note is secured by a mosquito sprayer, computer hardware and software, and 14 portable radio systems. 7,876

Note payable to the Waggoner National Bank to finance the water exploration. The note is due in annual principal payments of \$20,000 plus interest at 4.00% per annum in September 2017 with the balance of the principal and accrued interest due in September 2019. The note is unsecured. 119,376

Note payable to the Bank of the West to finance various equipment purchases. The note is due in monthly payments of \$795 of principal and interest at 2.74% per annum through July 1, 2019. The note is secured by fire SCBA gear and computer software and accessories. 16,281

Total business-type activities 143,533

Total all notes payable \$607,032

The debt service requirements on the notes payable at September 30, 2017 are as follows:

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$444,130	\$ 2,010	\$446,140
2019	<u>19,369</u>	<u>272</u>	<u>19,641</u>
Totals	<u>\$463,499</u>	<u>\$ 2,282</u>	<u>\$465,781</u>

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2017

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

<u>Year Ending September 30,</u>	<u>Business-type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 37,084	\$ 5,330	\$ 42,414
2019	<u>106,449</u>	<u>4,112</u>	<u>110,561</u>
Totals	<u>\$143,533</u>	<u>\$ 9,442</u>	<u>\$152,975</u>

F. Combined Debt Service Requirements

Debt service requirements on all long-term debt at September 30, 2017 are as follows:

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 496,607	\$ 38,594	\$ 535,201
2019	71,312	36,464	107,776
2020	77,089	35,355	112,444
2021	80,633	34,018	114,651
2022	96,025	32,418	128,443
2023-2027	449,165	132,770	581,935
2028-2032	302,504	71,359	373,863
2033-2036	<u>217,424</u>	<u>17,907</u>	<u>235,331</u>
Totals	<u>\$1,790,759</u>	<u>\$398,885</u>	<u>\$2,189,644</u>

<u>Year Ending September 30,</u>	<u>Business-type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 721,827	\$ 159,358	\$ 881,185
2019	797,543	138,458	936,001
2020	436,785	117,895	554,680
2021	309,084	106,707	415,791
2022	359,229	96,682	455,911
2023-2027	1,007,899	361,880	1,369,779
2028-2032	817,496	192,841	1,010,337
2033-2036	<u>587,576</u>	<u>48,393</u>	<u>635,969</u>
Totals	<u>\$5,037,439</u>	<u>\$1,222,214</u>	<u>\$6,259,653</u>

G. Advance Refundings of Debt

As of September 30, 2017, outstanding balances of bond issues that have been refunded and defeased in-substance by placing existing assets and the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments are \$2,760,000 of the Tax and Waterworks and Sewer System Revenue Certificates of Obligation, Series 2009. The bonds are scheduled to be called and paid in full on March 15, 2019.

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2017

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

H. 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.

I. BDC Debt

The BDC has notes payable outstanding at September 30, 2017 as follows:

The note payable to the Texas Leverage Fund (#1) is payable in monthly installments of \$6,215 including interest at 3.25% per annum and is secured by sales tax receipts collected by BDC. The note matures in January 2025. \$ 498,060

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. 957,928

Total \$1,455,988

The debt service requirements on the notes payable at September 30, 2017 are as follows:

<u>Year Ending September 30,</u>	<u>BDC Notes Payable</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 151,062	\$ 58,959	\$ 210,021
2019	157,609	52,413	210,022
2020	164,439	45,582	210,021
2021	171,566	38,456	210,022
2022	179,001	31,021	210,022
2023-2026	<u>632,311</u>	<u>46,826</u>	<u>679,137</u>
Totals	<u>\$1,455,988</u>	<u>\$273,257</u>	<u>\$1,729,245</u>

8. NET POSITION AND FUND BALANCES

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

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2017

8. NET POSITION AND FUND BALANCES (CONT'D.)

Net Position:	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
Restricted for:				
Debt service	\$ 241,538	\$1,030,867	\$1,272,405	\$ -
Public improvements:				
Expendable	73,714	-	73,714	-
Nonexpendable	2,861,641	-	2,861,641	-
Perpetual care:				
Nonexpendable	227,336	-	227,336	-
Municipal court building security	25,627	-	25,627	-
Municipal court technology	23,374	-	23,374	-
Public, education, and government access	78,282	-	78,282	-
Grants	220	-	220	-
Public safety	24,204	-	24,204	-
Parks and aquatics center	77,743	-	77,743	-
Christmas decorations	8,928	-	8,928	-
Tourism	<u>266,839</u>	<u>-</u>	<u>266,839</u>	<u>-</u>
Total restricted net position	<u>\$3,909,446</u>	<u>\$1,030,867</u>	<u>\$4,940,313</u>	<u>\$ -</u>

Fund Balances:	Governmental Funds				Total
	General	Debt Service Fund	Electric Trust Principal	Other Governmental	
Restricted for:					
Public improvements	\$ 73,714	\$ -	\$2,861,641	\$ -	\$2,935,355
Public, education, and government access	78,282	-	-	-	78,282
Debt service	-	241,538	-	-	241,538
Municipal court building security	-	-	-	25,627	25,627
Municipal court technology	-	-	-	23,374	23,374
Grants	-	-	-	220	220
Public safety	-	-	-	24,204	24,204
Parks and aquatics center	-	-	-	77,743	77,743
Christmas decorations	-	-	-	8,928	8,928
Tourism	-	-	-	266,839	266,839
Perpetual care	<u>-</u>	<u>-</u>	<u>-</u>	<u>227,336</u>	<u>227,336</u>
Total restricted fund balance	<u>\$151,996</u>	<u>\$241,538</u>	<u>\$2,861,641</u>	<u>\$654,271</u>	<u>\$3,909,446</u>
Committed for:					
Main Street	<u>\$ 74,088</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 74,088</u>

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2017

9. SELF-FUNDED WORKERS COMPENSATION

During the fiscal year ended September 30, 1992, the City began a self-insurance program for workers compensation. The Workers Compensation Fund, an internal service fund, was established for this program. Under prior arrangements, this program was administered by the Texas Municipal League. Stop-loss insurance is carried to cover claims in excess of \$250,000 in the aggregate. The City terminated the self-insurance program and obtained commercial coverage after that point during the year ended September 30, 2016. During the fiscal year ended September 30, 2017, the Workers Compensation Fund incurred no claims, stop-loss insurance premiums, and administrative costs. During the same period, the Fund did not receive any charges and fees from the General Fund, the Enterprise Fund or the BDC. Settled claims have not exceeded commercial coverage to date.

As of September 30, 2017, the reserve was \$23,314. Changes in the claims liability amounts in the fiscal years ended September 30, 2016 and 2017 were:

	<u>Beginning of Year Liability</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claims and Expenses Paid</u>	<u>Balance at Year End</u>
FYE September 30, 2016	<u>\$227,992</u>	<u>(\$171,668)</u>	<u>\$56,045</u>	<u>\$ 279</u>
FYE September 30, 2017	<u>\$ 279</u>	<u>\$ -</u>	<u>\$ 279</u>	<u>\$ -</u>

10. DEFINED BENEFIT PENSION PLAN

A. Plan Description

The City participates as one of 880 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmr.com.

All eligible employees of the City are required to participate in TMRS.

B. Benefits Provided

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the City Council, within the options available in the governing state statutes of TMRS.

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the City-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payment options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2017

10. DEFINED BENEFIT PENSION PLAN (CONT'D.)

Employees Covered by Benefit Terms

At the December 31, 2016 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	68
Inactive employees entitled to but not yet receiving benefits	80
Active employees	88

C. Contributions

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the participating city matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the participating city. Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees of the City were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City were 11.95% and 12.50% in calendar years 2016 and 2017, respectively. The City's contributions to TMRS for the year ended September 30, 2017 were \$440,815, and were equal to the required contributions.

D. Net Pension Liability

The City's Net Position Liability (NPL) was measured as of December 31, 2016 and the Total Pension Liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The Total Pension Liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.5% to 10.5%, including inflation
Investment rate of return	6.75%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table, with male rates multiplied by 109% and female rates multiplied by 103%. Based on the size of the City, rates are multiplied by a factor of 85.0%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Mortality Table with Blue Collar Adjustment is used with male rates multiplied by 109% and female rates multiplied by 103% with a 3-year set forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2017

10. DEFINED BENEFIT PENSION PLAN (CONT'D.)

Actuarial assumptions used in the December 31, 2016 valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, TMRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of real rates of return for each major asset class in fiscal year 2017 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return (Arithmetic)</u>
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.35%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	4.15%
Real Return	10.0%	4.15%
Real Estate	10.0%	4.75%
Absolute Return	10.0%	4.00%
Private Equity	<u>5.0%</u>	7.75%
Total	<u>100.0%</u>	

Discount Rate

The discount rate used to measure the Total Pension Liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2017

10. DEFINED BENEFIT PENSION PLAN (CONT'D.)

Changes in Net Pension Liability / (Asset)

	Increase (Decrease)		
	Total Pension Liability	Fiduciary Net Position	Net Pension Liability / (Asset)
	(a)	(b)	(a) – (b)
Balances as of December 31, 2015	\$20,785,921	\$16,917,941	\$3,867,980
Changes for the year:			
Service cost	522,433	-	522,433
Interest on total pension liability	1,382,533	-	1,382,533
Change in benefit terms	-	-	-
Difference between expected and actual experience	(376,813)	-	(376,813)
Change in assumptions	-	-	-
Contributions - employer	-	426,631	(426,631)
Contributions – employee	-	255,558	(255,558)
Net investment income	-	1,142,644	(1,142,644)
Benefit payments, including refunds of employee contributions	(1,130,326)	(1,130,326)	-
Administrative expense	-	(12,913)	12,913
Other changes	-	(696)	696
Balances as of December 31, 2016	<u>\$21,183,748</u>	<u>\$17,598,839</u>	<u>\$3,584,909</u>

Sensitivity Analysis

The following presents the net pension liability of the City, calculated using the discount rate of 6.75%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (5.75%) or 1 percentage point higher (7.75%) than the current rate.

	1% Decrease 5.75%	Current Discount Rate 6.75%	1% Increase 7.75%
Net pension liability	<u>\$6,522,204</u>	<u>\$3,584,909</u>	<u>\$1,188,173</u>

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's Fiduciary Net Position is available in a separately issued TMRS financial report. That report may be obtained at www.tmrs.com.

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2017

10. DEFINED BENEFIT PENSION PLAN (CONT'D.)

E. Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources

For the year ended September 30, 2017, the City recognized pension expense of \$579,372.

At September 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$470,216
Differences in assumption changes	239,405	-
Net difference between projected and actual earnings	787,251	-
Contributions made subsequent to measurement date	<u>333,316</u>	<u>-</u>
Total	<u>\$1,359,972</u>	<u>\$470,216</u>

\$333,316 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended December 31:</u>	
2017	\$135,965
2018	224,531
2019	196,079
2020	<u>(135)</u>
Total	<u>\$556,440</u>

11. HEALTH CARE COVERAGE

On March 11, 1992, the City began a self-insurance medical program through establishment of the Employee Benefits Trust Fund, an internal service fund. A contract is in effect with Blue Cross Blue Shield of Texas for the administration of the fund. Stop-loss insurance coverage is carried under which the Employee Benefits Trust Fund pays the first \$55,000 of medical expenses per covered person up to an aggregate amount of \$767,807 per year. The insurance provider pays amounts in excess of the aforementioned. Settled claims have not exceeded commercial insurance coverage as of September 30, 2017. Group life insurance premiums are also paid by the Employee Benefits Trust Fund. During the fiscal year ended September 30, 2017, \$888,433 was expended for health benefits, insurance premiums and administrative costs. Charges and fees for the same period amounted to \$905,689, including \$515,500 from the General Fund, \$171,150 from the Enterprise Fund, \$202,282 from employee payroll deductions, \$7,328 from the BDC, and \$9,429 from terminated employees (COBRA). These amounts were recorded as current expenditures in the charged funds and component unit.

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2017

11. HEALTH CARE COVERAGE (CONT'D.)

Both the General and Enterprise Funds and the BDC 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, 2017, the reserve was \$1,148,190.

The claims liability of \$105,361 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, 2016 and 2017 were:

	<u>Beginning of Year Liability</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claims and Expenses Paid</u>	<u>Balance at Year End</u>
FYE September 30, 2016	<u>\$77,620</u>	<u>\$872,164</u>	<u>\$855,273</u>	<u>\$ 94,511</u>
FYE September 30, 2017	<u>\$94,511</u>	<u>\$888,433</u>	<u>\$877,583</u>	<u>\$105,361</u>

12. COMMITMENTS AND CONTINGENCIES

A. Litigation

No reportable litigation was pending against the City at September 30, 2017.

B. Federal and State Grants – Compliance Audits

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

13. CLOSURE AND POSTCLOSURE CARE COST

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

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2017

13. CLOSURE AND POSTCLOSURE CARE COST (CONT'D.)

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

14. TAX ABATEMENT AGREEMENTS

The City has approved two tax abatement agreements. The first agreement is dated December 21, 2011 with Rhodia, Inc. and the second with Vernon Real Estate LLC dated May 7, 2013. Both agreements were issued pursuant to the Section 380.001 of the Texas Local Government Code relative to economic development of the City by (a) providing an incentive for already established businesses to expand, modernize, and (b) providing incentive to attract businesses that might not relocate to the community otherwise. In both cases, the agreements were to allow established businesses to expand and modernize.

The Rhodia agreement is a ten-year abatement of its taxable mineral interest for 100% the first four years, 80% year five, 60% year six, 40% year seven, 30% year eight, 20% year nine, and 10% year ten. This is the fourth year of the agreement and the total value loss was \$9,865,680. The reduction in M&O taxes was \$38,201 and I&S taxes was \$17,512.

The Vernon Real Estate LLC agreement is a five-year abatement of taxable real and personal property for 100% the first year, 80% year two, 60% year three, 40% year four, and 20% year five. This is the second year of the agreement and the total value loss was \$3,355,908. The reduction in M&O taxes was \$12,994 and I&S taxes was \$5,957.

Both agreements have early termination/default clauses that without the consent of the City or in the event that the company or its successor-in-interest fails to comply in any material respect with the terms of the agreement or to meet any material obligation under the agreement, then the City shall be entitled to the recapture of all ad valorem tax revenue lost as a result of the agreement together with the payment of 10% interest on that recaptured ad valorem tax revenue.

REQUIRED SUPPLEMENTARY INFORMATION

THE CITY OF VERNON, TEXAS

REQUIRED SUPPLEMENTARY INFORMATION SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS TEXAS MUNICIPAL RETIREMENT SYSTEM

	2014	2015	2016
Total Pension Liability			
Service cost	\$ 628,498	\$ 572,998	\$ 522,433
Interest on total pension liability	1,529,732	1,358,771	1,382,533
Changes of benefit terms	-	(2,689,621) ⁽¹⁾	-
Difference between expected and actual experience	(672,755)	(206,925)	(376,813)
Changes of assumptions	-	514,583	-
Benefit payments/refunds of contributions	(1,264,777)	(1,156,038)	(1,130,326)
Net change in total pension liability	<u>220,698</u>	<u>(1,606,232)</u>	<u>397,827</u>
Total pension liability, beginning	<u>22,171,455</u>	<u>22,392,153</u>	<u>20,785,921</u>
Total pension liability, ending (a)	<u>\$ 22,392,153</u>	<u>\$ 20,785,921</u>	<u>\$ 21,183,748</u>
Fiduciary Net Position			
Contributions - employer	\$ 734,220	\$ 687,295	\$ 426,631
Contributions - employee	286,327	261,472	255,558
Net investment income	939,988	25,252	1,142,644
Benefit payments/refunds of contributions	(1,264,777)	(1,156,038)	(1,130,326)
Administrative expenses	(9,814)	(15,383)	(12,913)
Other	(807)	(760)	(696)
Net change in fiduciary net position	<u>685,137</u>	<u>(198,162)</u>	<u>680,898</u>
Fiduciary net position, beginning	<u>16,430,966</u>	<u>17,116,103</u>	<u>16,917,941</u>
Fiduciary net position, ending (b)	<u>\$ 17,116,103</u>	<u>\$ 16,917,941</u>	<u>\$ 17,598,839</u>
Net pension liability, ending = (a) - (b)	<u>\$ 5,276,050</u>	<u>\$ 3,867,980</u>	<u>\$ 3,584,909</u>
Fiduciary net position as a % of total pension liability	<u>76.44%</u>	<u>81.39%</u>	<u>83.08%</u>
Covered employee payroll	<u>\$ 4,090,382</u>	<u>\$ 3,735,319</u>	<u>\$ 3,650,828</u>
Net pension liability as a % of covered payroll	<u>128.99%</u>	<u>103.55%</u>	<u>98.19%</u>

This schedule is presented to illustrate the requirement to show information for 10 years. However, recalculations of prior years are not required, and if prior years are not reported in accordance with the standards of GASB 67/68, they should not be shown here. Therefore, we have shown only years for which the new GASB statements have been prepared.

(1) The City decreased the repeating COLA from 70% to 30% and decreased the repeating USC from 100% to 75% effective January 1, 2015.

THE CITY OF VERNON, TEXAS

REQUIRED SUPPLEMENTARY INFORMATION SCHEDULE OF CONTRIBUTIONS TEXAS MUNICIPAL RETIREMENT SYSTEM

	2015	2016	2017
Actuarial determined contribution	\$ 712,711	\$ 494,331	\$ 440,815
Contributions in relation to the actuarially determined contribution	<u>(712,711)</u>	<u>(494,331)</u>	<u>(440,815)</u>
Contribution deficiency	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	<u>\$ 3,735,319</u>	<u>\$ 3,650,828</u>	<u>\$ 3,572,079</u>
Contributions as a percentage of covered employee payroll	<u>19.08%</u>	<u>13.54%</u>	<u>12.34%</u>

Valuation Date:

Actuarially determined contribution rates are calculated as of December 31 and become effective in January 13 months later.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	29 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	2.50%
Salary Increases	3.50% to 10.50% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB

Other Information:

Notes There were no benefit changes during the year.

This schedule is presented to illustrate the requirement to show information for 10 years. However, recalculations of prior years are not required, and if prior years are not reported in accordance with the standards of GASB 67/68, they should not be shown here. Therefore, we have shown only years for which the new GASB statements have been prepared.

The data on this schedule is based on the City's fiscal year-end, not the valuation/measurement data as provided in other schedules of this report.