

**THE CITY OF VERNON, TEXAS**

**ANNUAL FINANCIAL REPORT**

**FOR THE YEAR ENDED SEPTEMBER 30, 2013**

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*FINANCIAL SECTION*



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## Independent Auditor's Report

Mayor and City Commission  
The City of Vernon, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Vernon, Texas (City) as of and for the year ended September 30, 2013, 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, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Required Supplementary Information*

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

*Edgin, Parkman, Fleming & Fleming, PC*

EDGIN, PARKMAN, FLEMING & FLEMING, PC

Wichita Falls, Texas  
February 19, 2014

## 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, 2013. Please read it in conjunction with the City’s financial statements, which follow this section.

### FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$20,174,278 (net position). Of this amount, \$1,971,162 (unrestricted net position) may be used to meet the City’s obligations.
- During the year, the City’s total net position decreased by \$633,928, including \$272,009 of prior period adjustments.
- The governmental funds reported a fund balance this year of \$3,482,308, which is an increase of \$55,359 in comparison with the prior year amount of \$3,426,949 or 2%. Of this total fund balance, \$0 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 \$0. All of the total Governmental Funds fund balances are restricted.

### OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

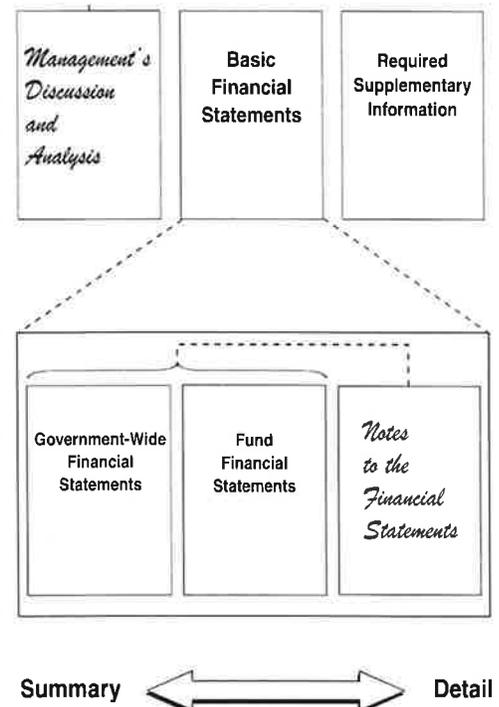


Figure A-2 summarizes the major features of the City's financial statements, including the portion of the City's government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each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

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

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

**Government-wide Statements**

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

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

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

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

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

## Fund Financial Statements

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

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

The City has the following kinds of funds:

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

## FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

**Net position.** The City's combined net position was \$20,174,278 at September 30, 2013. (See Table A-1)

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

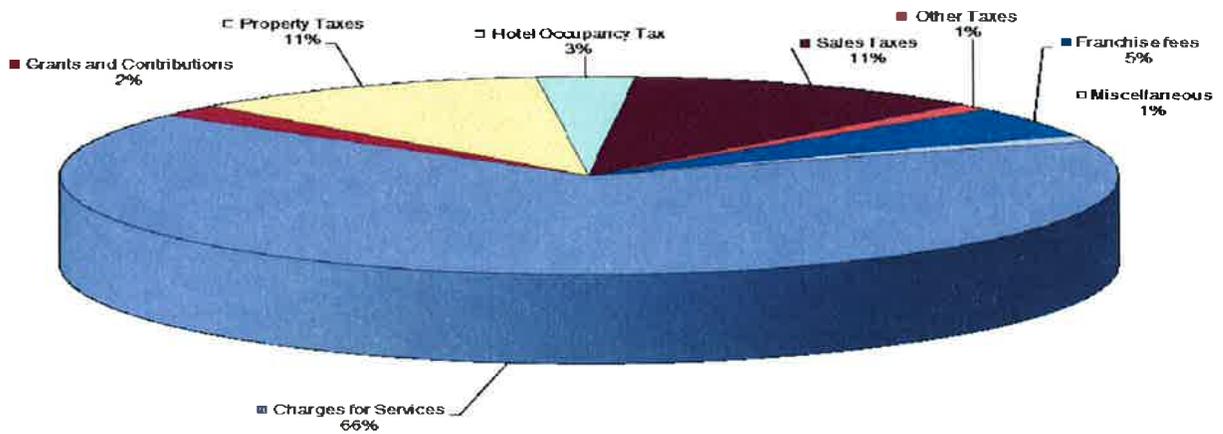
	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Current and other assets	\$ 5,388,365	\$ 5,554,115	\$ 1,107,064	\$ 2,006,264	\$ 6,495,429	\$ 7,560,379
Capital assets, net	6,626,627	6,918,979	19,785,825	20,424,141	26,412,452	27,343,120
Total assets	12,014,992	12,473,094	20,892,889	22,430,405	32,907,881	34,903,499
Current and other liabilities	339,862	1,035,556	355,387	1,230,227	695,249	2,265,783
Long-term liabilities	3,053,082	2,857,518	8,985,272	9,543,608	12,038,354	12,401,126
Total liabilities	3,392,944	3,893,074	9,340,659	10,773,835	12,733,603	14,666,909
Net position						
Net investment in						
capital assets	3,847,248	3,834,494	10,888,555	10,802,515	14,735,803	14,637,009
Restricted	3,398,524	3,354,002	68,789	542,446	3,467,313	3,896,448
Unrestricted	1,376,276	1,391,524	594,886	883,225	1,971,162	2,274,749
Total net position	\$ 8,622,048	\$ 8,580,020	\$ 11,552,230	\$ 12,228,186	\$ 20,174,278	\$ 20,808,206

The \$1,971,162 of unrestricted net position at September 30, 2013 represents resources available to fund the programs of the City next year if sufficient resources are not derived from future resources. The restricted net position are required to be set aside for long-term debt, public improvements and various other activities.

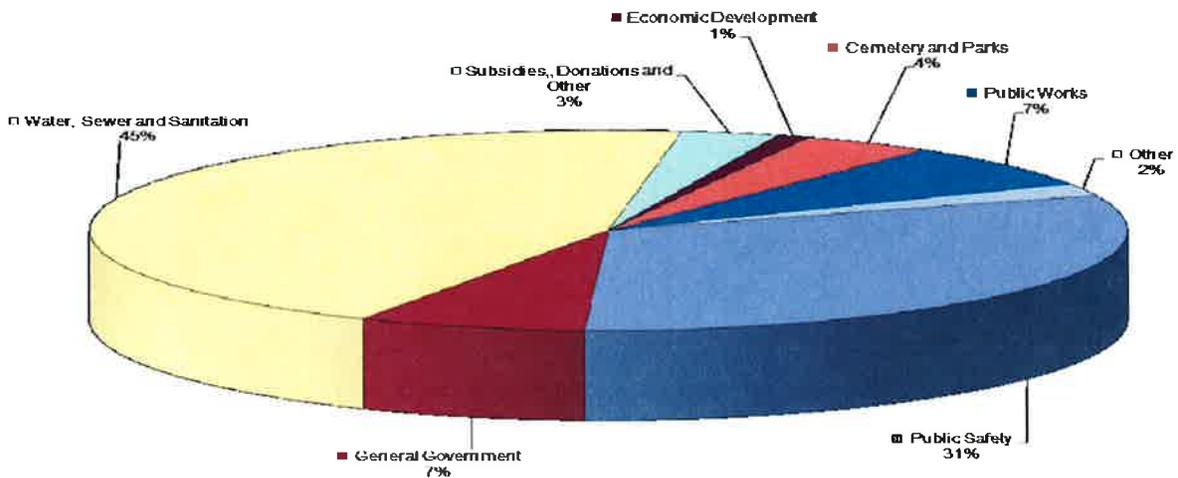
**Changes in net position.** The City's total revenues, both program and general, were \$11,971,030 a significant portion, 66%, of the City's revenue comes from charges for services. (See Figure A-3.) 2% comes from operating grants and contributions, 11% comes from sales taxes, 11% from property taxes and 5% from franchise fees. Other minor categories combined make up 5% of the City's total revenues.

The total cost of all programs and services was \$12,332,949, 45% of these costs are for water, sewer and sanitation related expenses. The City's expenses cover a range of services, with 31% related to public safety, 7% for public works, 4% for cemetery and parks, 2% for civic and cultural, 3% for Subsidies, Donations, and other, and 7% for general government. (See Figure A-4.)

**Figure A-3  
Source of Revenue for Fiscal Year 2013**



**Figure A-4  
Functional Expense for Fiscal Year 2013**



## 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	
	2013	2012	2013	2012	2013	2012
<b>Revenues</b>						
Program revenues						
Charges for services	\$ 1,798,708	\$ 1,815,884	\$ 6,127,861	\$ 6,045,604	\$ 7,926,569	\$ 7,861,488
Operating and capital grants	231,377	232,445	-	-	231,377	232,445
General revenues						
Property taxes	1,377,328	1,364,422	-	-	1,377,328	1,364,422
Sales taxes	1,287,460	1,178,628	-	-	1,287,460	1,178,628
Franchise fees	593,434	654,837	-	-	593,434	654,837
Other taxes	370,378	328,526	-	-	370,378	328,526
Investment earnings	32,621	52,438	4,984	12,236	37,605	64,674
Miscellaneous	131,210	96,932	15,669	29,576	146,879	126,508
Total revenues	<u>5,822,516</u>	<u>5,724,112</u>	<u>6,148,514</u>	<u>6,087,416</u>	<u>11,971,030</u>	<u>11,811,528</u>
<b>Expenses</b>						
General government	890,905	861,152	-	-	890,905	861,152
Public safety	3,881,994	3,959,729	-	-	3,881,994	3,959,729
Public works	801,698	875,395	-	-	801,698	875,395
Cemetery and Parks	493,384	470,179	-	-	493,384	470,179
Subsidies, donations, and other	418,791	403,451	-	-	418,791	403,451
Christmas decorations	7,598	10,802	-	-	7,598	10,802
Civic and cultural	170,928	306,502	-	-	170,928	306,502
Economic development	123,379	126,095	-	-	123,379	126,095
Interest	110,107	109,256	-	-	110,107	109,256
Water, sewer and sanitation	-	-	5,434,165	4,831,497	5,434,165	4,831,497
Total expenses	<u>6,898,784</u>	<u>7,122,561</u>	<u>5,434,165</u>	<u>4,831,497</u>	<u>12,332,949</u>	<u>11,954,058</u>
Transfers	1,194,738	1,461,290	(1,194,738)	(1,461,290)	-	-
Change in net position	<u>118,470</u>	<u>62,841</u>	<u>(480,389)</u>	<u>(205,371)</u>	<u>(361,919)</u>	<u>(142,530)</u>
Net position - beginning (as originally stated)	8,580,020	8,517,179	12,228,186	12,433,557	20,808,206	20,950,736
Prior period adjustment	(76,442)	-	(195,567)	-	(272,009)	-
Net position - beginning (as restated)	<u>8,503,578</u>	<u>8,517,179</u>	<u>12,032,619</u>	<u>12,433,557</u>	<u>20,536,197</u>	<u>20,950,736</u>
Net position - ending	<u>\$ 8,622,048</u>	<u>\$ 8,580,020</u>	<u>\$ 11,552,230</u>	<u>\$ 12,228,186</u>	<u>\$ 20,174,278</u>	<u>\$ 20,808,206</u>

The most significant fluctuation between years relates to the following:

- Charges for Services increased by \$65,081, which is due to rate increases.
- Sales Tax increased by \$108,862 due to stimulus of retail sales in the local economy.
- Franchise Fees decreased by \$61,403 due to lower natural gas purchases which decreased payments from franchise.
- Public Safety and Public Works expenses decreased \$77,735 and \$73,697, mostly due to tightening of spending and budget cuts in the City's efforts of providing quality services at the lowest cost.

- Water, Sewer and Sanitation expenses increased \$602,668. The increase relates to (1) increased costs to operate the ionic exchange plant to treat water nitrates, (2) increased repairs to water lines, and (3) increased administrative charges from the General Fund.

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 \$6,898,784; however, the amount that our taxpayers paid for these activities through property taxes was \$1,377,328.
- Some of the cost was paid by those who directly benefited from the programs through charges for services of \$1,798,708.

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

	Total Cost of Services		Net Cost of Services	
	2013	2012	2013	2012
General government	\$ 890,905	\$ 861,152	\$ 600,928	\$ 527,956
Public safety	3,881,994	3,959,729	2,560,888	2,639,514
Public works	801,698	875,395	693,046	767,110
Cemetery and parks	493,384	470,179	251,538	234,477
Economic development	123,379	126,095	123,379	126,095
Subsidies, donations and other	418,791	403,451	356,609	358,885
Christmas decorations	7,598	10,802	1,276	4,437
Civic and cultural	170,928	306,502	170,928	306,502
Interest	110,107	109,256	110,107	109,256
Total	<u>\$ 6,898,784</u>	<u>\$ 7,122,561</u>	<u>\$ 4,868,699</u>	<u>\$ 5,074,232</u>

## FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Revenues from governmental funds totaled \$5,790,131 an increase of \$162,863 or 3%. The largest increase was an increase in sales taxes of \$108,862 or 8%. Positive revenue seen in sales taxes being up which can be attributed to stimulus of retail sales in the local economy.

Expenditures from governmental funds totaled \$6,957,848 a decrease of \$1,831,703 or 21%. The largest decrease was in capital outlay, a decrease of \$1,617,838 or 23% due to the completion of the aquatic center in the prior year. The second largest decrease was in civic and cultural, which was a decrease of \$135,574 or 44%. This was mostly due to hotel occupancy tax funds granted in lower total amount compared to that of in the prior year. Prior year awards were higher than normal due to one-time grants. Transfers to the general fund decreased by \$211,568 or 15%.

## General Fund Budgetary Highlights

Over the course of the year, the City revised its budget. Franchise revenue was down because less heating gas was sold in prior year's mild winter, so less franchise revenue was remitted to City. Court revenue was down because Police and Code Enforcement issued fewer tickets due to significantly higher local compliance with laws. Sales Tax was strong due to energy interests of local business and traveling crews, a trend expected to last 2-3 years. The City cut expenses and deferred seal coating of streets.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

At September 30, 2013, the City had invested in a broad range of capital assets totaling \$26,412,482, 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	
	2013	2012	2013	2012	2013	2012
Land	\$ 981,029	\$ 981,029	\$ 721,690	\$ 721,690	\$ 1,702,719	\$ 1,702,719
Construction in progress	-	-	13,473	-	13,473	-
Buildings and improvements	1,594,714	-	18,577,522	15,673	20,172,236	15,673
Infrastructure	2,163,630	3,857,086	-	19,171,688	2,163,630	23,028,774
Equipment, furniture, fixtures	910,786	928,906	401,189	433,223	1,311,975	1,362,129
Vehicles	976,468	1,151,958	71,951	81,867	1,048,419	1,233,825
<b>Total net assets</b>	<b>\$ 6,626,627</b>	<b>\$ 6,918,979</b>	<b>\$ 19,785,825</b>	<b>\$ 20,424,141</b>	<b>\$ 26,412,452</b>	<b>\$ 27,343,120</b>

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

For the City’s fiscal year 2014, the City plans capital additions including:

Capital Item	Governmental Activities	Business Activities	Total
Police Computers and Servers		18,590	18,590
*Fire SCBA Gear Replacements		50,000	50,000
Fire Wildland Fire Gear		5,500	5,500
*EMS Ambulance		151,450	151,450
New Environmental Regulations and Testing (Nitrate, Lead, Copper, and Phosphorous Rules)	(Approximately)	400,000	400,000
*Utility Billing - Postal Required Upgrade		5,600	5,600
Water Sources		80,000	80,000
Wastewater Lift Station TCEQ Upgrades (over two years)		7,500	7,500
Cemetery Curb & Gutter (from Perpetual Care Fund)		30,000	30,000
<b>Total</b>			<b>\$748,640</b>

\* Financed

## Long-term Obligations

At September 30, 2013, the City had \$12,038,354 in bonds, compensated absences, and leases outstanding as shown in Table A-5. More detailed information about the City's long-term obligations is presented in the notes to the financial statements.

**Table A-5  
Outstanding Debt**

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Certificates of Obligation	\$ 1,270,000	\$ 1,315,000	\$ -	\$ -	\$ 1,270,000	\$ 1,315,000
Capital Leases	1,020,193	1,269,485	70,527	115,453	1,090,720	1,384,938
Notes payable	489,186	500,000	237,000	-	726,186	500,000
Compensated absences	273,703	267,176	88,001	78,885	361,704	346,061
Revenue Bonds	-	-	8,589,744	9,506,173	8,589,744	9,506,173
<b>Total</b>	<b>\$ 3,053,082</b>	<b>\$ 3,351,661</b>	<b>\$ 8,985,272</b>	<b>\$ 9,700,511</b>	<b>\$ 12,038,354</b>	<b>\$ 13,052,172</b>

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

Appraised value used for the 2013-14 budget preparation was \$378,716,490. This value is up over \$1.7 million, or 0.46% above last year's value. Local sales tax revenue was strong due to energy interests of local business and traveling crews, a trend expected to last 2-3 years. These indicators were taken into consideration when adopting the General Fund budget for 2013-14.

The 2013-14 budgets were developed so as to increase fund balances in the General and Utility Funds due to recent declines. Revenues and other financing sources in the General Fund budget are \$6,613,953, a decrease of 0.09% over the prior year. Property tax revenue is expected to be slight decrease over the anticipated revenue for the prior year due to adoption of the same tax rate. The tax rate adopted is \$0.360778 per \$100 of assessed valuation. This rate is below the effective tax rate of \$0.360863 per \$100 valuation as calculated by the Wilbarger County Appraisal District. Ambulance collections have been lagging due to increasingly difficult Medicare documentation rules. This budget contains a substantial increase to County and Hospital subsidies to the City according to the 1984 agreement. The increase of \$1,912 over last year resulted in \$5,580 per month for each.

General Fund expenditures are budgeted at \$6,581,162, an increase of 1.3% over the prior year. Enterprise Fund expenditures are budgeted at \$6,891,060, an increase of 4.7% over the prior year.

Enterprise Fund budget was set with a 4.7% overall increase in water and sewer operation costs to cover increased costs due to debt service, permit renewal, increased testing, and fuel increases. The Statewide drought continues to take a toll on City's revenue stream. The City usually depends on robust water sales to rebuild revenue; however this has not happened in recent years. Rates were increased approximately 4.7%.

If these estimates are realized, both the City's budgetary General Fund's fund balance and Enterprise Fund Balance are expected to increase by the close of 2013-14. Cash balance for the General Fund is projected to be \$250,140 which is under a sixty day operational cushion goal of \$1,096,860 projected for 2013-14. Cash reserves for the Enterprise Fund are projected to be \$329,401 which is under a sixty day operational cushion goal of \$1,645,194 projected for 2013-14.

## 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, 2013**

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
<b>Assets</b>				
Cash and cash equivalents	\$ 4,648,265	\$ 177,372	\$ 4,825,637	\$ 445,777
Receivables:				
Due from primary government	-	-	-	105,651
Customers (net)	-	550,314	550,314	-
Ambulance (net)	215,836	-	215,836	-
Property taxes (net)	97,618	43	97,661	-
Sales taxes	314,196	-	314,196	-
Hotel occupancy taxes	32,060	-	32,060	-
Franchise fees	215,446	-	215,446	-
Other	10,800	-	10,800	-
Internal balances	(162,558)	162,558	-	-
Other assets	325	450	775	-
Restricted Assets:				
Cash and cash equivalents	16,377	216,327	232,704	256,883
Capital assets not being depreciated	981,029	735,163	1,716,192	110,336
Capital assets being depreciated (net)	5,645,598	19,050,662	24,696,260	494,085
Total assets	<u>12,014,992</u>	<u>20,892,889</u>	<u>32,907,881</u>	<u>1,412,732</u>
<b>Liabilities</b>				
Accounts payable	206,483	134,676	341,159	-
Taxes payable	1,751	43,115	44,866	-
Grant payable	-	-	-	10,000
Due to component unit	105,651	-	105,651	-
Accrued interest payable	25,977	15,716	41,693	1,207
Customer deposits	-	161,880	161,880	-
Long-term liabilities:				
Portion due or payable within one year	479,598	1,048,337	1,527,935	165,991
Portion due or payable after one year	2,573,484	7,936,935	10,510,419	2,411,482
Total liabilities	<u>3,392,944</u>	<u>9,340,659</u>	<u>12,733,603</u>	<u>2,588,680</u>
<b>Net Position</b>				
Net investment in capital assets	3,847,248	10,888,555	14,735,803	302,674
Restricted	3,398,524	68,789	3,467,313	256,883
Unrestricted	1,376,276	594,886	1,971,162	(1,735,505)
Total net position	<u>\$ 8,622,048</u>	<u>\$ 11,552,230</u>	<u>\$ 20,174,278</u>	<u>\$ (1,175,948)</u>

*See accompanying notes to the basic financial statements.*

**THE CITY OF VERNON, TEXAS**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2013**

Functions/Programs	Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions
Primary government:			
Governmental activities:			
General government	\$ 890,905	\$ 262,000	\$ 27,977
Public safety	3,881,994	1,162,219	158,887
Public works	801,698	108,652	-
Cemetery and parks	493,384	203,655	38,191
Subsidies, donations and other	418,791	62,182	-
Christmas decorations	7,598	-	6,322
Civic and cultural	170,928	-	-
Economic development	123,379	-	-
Interest expense	110,107	-	-
Total governmental activities	6,898,784	1,798,708	231,377
Business-type activities:			
Water	2,331,835	2,859,006	-
Sewer	1,405,616	1,708,379	-
Sanitation	1,631,291	1,456,725	-
Other	65,423	103,751	-
Total business-type activities	5,434,165	6,127,861	-
Total primary government	\$ 12,332,949	\$ 7,926,569	\$ 231,377
Component unit:			
Business Development Corporation of Vernon	\$ 434,892	\$ 60,000	\$ -
General revenues and transfers:			
Taxes:			
Property taxes			
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 (as originally stated)			
Prior period adjustments			
Net position - beginning (as restated)			
Net position - ending			

*See accompanying notes to the basic financial statements.*

Net (Expense) Revenue and Changes in Net Position			
Primary Government			Component Unit
Governmental Activities	Business-type Activities	Total	
\$ (600,928)	\$ -	\$ (600,928)	\$ -
(2,560,888)	-	(2,560,888)	-
(693,046)	-	(693,046)	-
(251,538)	-	(251,538)	-
(356,609)	-	(356,609)	-
(1,276)	-	(1,276)	-
(170,928)	-	(170,928)	-
(123,379)	-	(123,379)	-
(110,107)	-	(110,107)	-
<u>(4,868,699)</u>	<u>-</u>	<u>(4,868,699)</u>	<u>-</u>
-	527,171	527,171	-
-	302,763	302,763	-
-	(174,566)	(174,566)	-
-	38,328	38,328	-
<u>-</u>	<u>693,696</u>	<u>693,696</u>	<u>-</u>
<u>(4,868,699)</u>	<u>693,696</u>	<u>(4,175,003)</u>	<u>-</u>
-	-	-	(374,892)
1,377,328	-	1,377,328	-
593,434	-	593,434	-
1,287,460	-	1,287,460	643,729
367,697	-	367,697	-
2,681	-	2,681	-
32,621	4,984	37,605	10,282
131,210	15,669	146,879	441
1,194,738	(1,194,738)	-	-
<u>4,987,169</u>	<u>(1,174,085)</u>	<u>3,813,084</u>	<u>654,452</u>
<u>118,470</u>	<u>(480,389)</u>	<u>(361,919)</u>	<u>279,560</u>
8,580,020	12,228,186	20,808,206	(1,434,285)
(76,442)	(195,567)	(272,009)	(21,223)
<u>8,503,578</u>	<u>12,032,619</u>	<u>20,536,197</u>	<u>(1,455,508)</u>
<u>\$ 8,622,048</u>	<u>\$ 11,552,230</u>	<u>\$ 20,174,278</u>	<u>\$ (1,175,948)</u>

**THE CITY OF VERNON, TEXAS**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**SEPTEMBER 30, 2013**

	General	Electric Trust Principal	Other Governmental	Total Governmental Funds
<b>Assets</b>				
Cash and cash equivalents	\$ -	\$ 2,837,003	\$ 428,427	\$ 3,265,430
Receivables:				
Ambulance (net)	215,836	-	-	215,836
Property taxes (net)	97,618	-	-	97,618
Sales taxes	314,196	-	-	314,196
Franchise fees	66,565	-	-	66,565
Hotel occupancy taxes	-	-	32,060	32,060
Other	9,686	-	1,114	10,800
Due from other funds	7,757	-	102,809	110,566
Other assets	325	-	-	325
Restricted assets:				
Cash and cash equivalents	16,377	-	-	16,377
<b>Total assets</b>	<b>\$ 728,360</b>	<b>\$ 2,837,003</b>	<b>\$ 564,410</b>	<b>\$ 4,129,773</b>
 <b>Liabilities, Deferred Inflows of Resources, and Fund Balances</b>				
Liabilities:				
Accounts payable	\$ 145,609	\$ -	\$ 6,291	\$ 151,900
Taxes payable	1,751	-	-	1,751
Due to other funds	105,386	-	5,000	110,386
Due to component unit	105,651	-	-	105,651
<b>Total liabilities</b>	<b>358,397</b>	<b>-</b>	<b>11,291</b>	<b>369,688</b>
Deferred Inflows of Resources:				
Unavailable revenues	277,777	-	-	277,777
Fund balances:				
Restricted	8,402	2,837,003	553,119	3,398,524
Committed	83,784	-	-	83,784
<b>Total fund balances</b>	<b>92,186</b>	<b>2,837,003</b>	<b>553,119</b>	<b>3,482,308</b>
<b>Total liabilities, deferred inflows of resources, and fund balances</b>	<b>\$ 728,360</b>	<b>\$ 2,837,003</b>	<b>\$ 564,410</b>	<b>\$ 4,129,773</b>

*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, 2013**

Total fund balances - governmental funds (Exhibit A-3)		\$ 3,482,308
Amounts reported for <i>governmental activities</i> in the Statement of Net Position (Exhibit A-1) are different because:		
Capital assets used in governmental activities are not financial resources and therefore not reported in the funds. Capital assets at year-end consist of:		
Gross capital assets	\$ 9,931,434	
Related accumulated depreciation	<u>3,304,807</u>	6,626,627
Property taxes receivable are not available to pay for current period expenditures and therefore are deferred inflows of resources in the funds.		91,188
Ambulance fees receivable are not available to pay for current period expenditures and therefore are deferred inflows of resources in the funds.		160,957
Franchise fees receivable are not available to pay for current period expenditures and therefore are deferred inflows of resources in the funds.		25,632
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.		148,881
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:		
Certificates of obligation	1,270,000	
Capital leases	1,020,193	
Note payable	489,186	
Compensated absences	273,703	
Accrued interest on long-term debt	<u>25,977</u>	(3,079,059)
The assets and liabilities of the internal service funds are included in the governmental activities in the Statement of Net Position.		<u>1,165,514</u>
Total net position - governmental activities (Exhibit A-1)		<u><u>\$ 8,622,048</u></u>

*See accompanying notes to the basic financial statements.*

## EXHIBIT A-5

**THE CITY OF VERNON, TEXAS**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN**  
**FUND BALANCES - GOVERNMENTAL FUNDS**  
**SEPTEMBER 30, 2013**

	General	Electric Trust Principal	Other Governmental	Total Governmental Funds
<b>Revenues</b>				
Property taxes	\$ 1,378,892	\$ -	\$ -	\$ 1,378,892
Franchise fees	564,543	-	-	564,543
Sales taxes	1,287,460	-	-	1,287,460
Hotel occupancy taxes	-	-	367,697	367,697
Other taxes	2,681	-	-	2,681
Licenses and permits	17,827	-	-	17,827
Cemetery income	58,308	-	-	58,308
Contracts	105,043	-	-	105,043
Swimming pool	75,927	-	-	75,927
Ambulance service	553,241	-	-	553,241
Administrative charges to other funds	899,571	-	-	899,571
Fines and fees	117,781	-	-	117,781
Grants and donations	27,977	-	203,400	231,377
Investment earnings	1,764	18,582	3,592	23,938
Other revenues	76,518	-	29,330	105,848
Total revenues	<u>5,167,533</u>	<u>18,582</u>	<u>604,019</u>	<u>5,790,134</u>
<b>Expenditures</b>				
General government	853,556	-	20,290	873,846
Public safety	3,609,279	-	8,358	3,617,637
Public works	731,769	-	-	731,769
Cemetery and parks	447,518	-	20	447,538
Subsidies, donations and other	418,791	-	-	418,791
Christmas decorations	-	-	7,598	7,598
Civic and cultural	-	-	170,928	170,928
Economic development	-	-	123,379	123,379
Capital outlay	31,103	-	104,476	135,579
Debt service:				
Principal	303,633	-	-	303,633
Interest charges	127,150	-	-	127,150
Total expenditures	<u>6,522,799</u>	<u>-</u>	<u>435,049</u>	<u>6,957,848</u>
Excess of revenues over (under) expenditures	<u>(1,355,266)</u>	<u>18,582</u>	<u>168,970</u>	<u>(1,167,714)</u>
<b>Other Financing Sources (Uses)</b>				
Proceeds from the sale of capital assets	25,362	-	-	25,362
Proceeds from sale of perpetual care spaces	-	-	2,973	2,973
Transfers in	1,345,469	-	-	1,345,469
Transfers out	-	(12,649)	(138,082)	(150,731)
Total other financing sources (uses)	<u>1,370,831</u>	<u>(12,649)</u>	<u>(135,109)</u>	<u>1,223,073</u>
Net change in fund balance	15,565	5,933	33,861	55,359
Fund balances - beginning	76,621	2,831,070	519,258	3,426,949
Fund balances - ending	<u>\$ 92,186</u>	<u>\$ 2,837,003</u>	<u>\$ 553,119</u>	<u>\$ 3,482,308</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, 2013**

Net change in fund balances - total governmental funds (Exhibit A-5)		\$ 55,359
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	\$ 135,579	
Depreciation expense for the year	<u>427,931</u>	(292,352)
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. Unearned portions changed by these amounts this year:		
Property taxes	(1,564)	
Ambulance fees	(31,963)	
Franchise fees	<u>25,632</u>	(7,895)
Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. Principal payments during the year were:		
Certificate of obligation	45,000	
Note payable	10,814	
Capital leases payable	<u>249,292</u>	305,106
Accrued interest payable from the beginning of the year to the end of the year changed by:		15,570
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:		(6,527)
Increase in the franchise fees receivable from the prior year (not included in the governmental funds).		3,259
The internal service funds' activities related to the General Fund are included in the Statement of Activities of the governmental activities.		<u>45,950</u>
Change in net position of governmental activities (Exhibit A-2)		<u><u>\$ 118,470</u></u>

*See accompanying notes to the basic financial statements.*

**THE CITY OF VERNON, TEXAS**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
**SEPTEMBER 30, 2013**

	Enterprise Fund	Internal Service Funds
	Utility Fund	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 177,372	\$ 1,382,835
Receivables:		
Customers (net)	550,314	-
Property taxes (net)	43	-
Due from other funds	3,589	-
Other assets	450	-
Restricted assets:		
Cash and cash equivalents	216,327	-
Total current assets	<u>948,095</u>	<u>1,382,835</u>
Long-term assets:		
Capital assets not being depreciated	735,163	-
Capital assets being depreciated (net)	19,050,662	-
Total long-term assets	<u>19,785,825</u>	<u>-</u>
 Total assets	 <u>20,733,920</u>	 <u>1,382,835</u>
<b>Liabilities</b>		
Current liabilities:		
Accounts payable	134,676	54,583
Taxes payable	43,115	-
Due to other funds	3,769	-
Accrued interest payable	15,716	-
Customer deposits	161,880	-
Current maturities of long-term obligations	1,048,337	-
Total current liabilities	<u>1,407,493</u>	<u>54,583</u>
Long-term liabilities:		
Long-term obligations, less current maturities	<u>7,936,935</u>	<u>-</u>
 Total liabilities	 <u>9,344,428</u>	 <u>54,583</u>
<b>Net Position</b>		
Net investment in capital assets	10,888,555	-
Restricted	68,789	-
Unrestricted	432,148	1,328,252
Total net position	<u>11,389,492</u>	<u>\$ 1,328,252</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	<u>162,738</u>	
Net position of business-type activities	<u>\$ 11,552,230</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, 2013**

	Enterprise Fund	Internal Service Funds
	Utility Fund	
Operating revenues:		
Water revenues	\$ 2,836,970	\$ -
Sewer revenues	1,708,379	-
Sanitation revenues	1,456,725	-
Charges and fees	-	822,797
Late fees	103,751	-
Other revenues	15,669	-
Total operating revenues	<u>6,121,494</u>	<u>822,797</u>
Operating expenses:		
Billing and collection	223,502	-
Water	1,667,969	-
Sewer	875,924	-
Sanitation	1,553,975	-
Insurance claims and related	-	775,919
Bad debts	27,284	-
Depreciation	713,342	-
Other operating expenses	38,139	-
Total operating expenses	<u>5,100,135</u>	<u>775,919</u>
Operating income	<u>1,021,359</u>	<u>46,878</u>
Nonoperating revenues (expenses):		
Interest income	4,984	8,683
Rent income	22,036	-
Interest expense	(343,641)	-
Total nonoperating revenues (expenses)	<u>(316,621)</u>	<u>8,683</u>
Income before transfers	704,738	55,561
Transfers out	<u>(1,194,738)</u>	<u>-</u>
Change in net position	<u>(490,000)</u>	<u>55,561</u>
Net position - beginning (as originally stated)	12,075,059	1,334,816
Prior period adjustment	(195,567)	(62,125)
Net position - beginning (as restated)	<u>11,879,492</u>	<u>1,272,691</u>
Net position - ending	<u>\$ 11,389,492</u>	<u>\$ 1,328,252</u>
Reconciliation to government-wide statement of activities:		
Adjustment to reflect the consolidation of the Internal Service		
Fund's activities related to the Enterprise Fund	9,611	
Change in net position of the business-type activities	<u>\$ (480,389)</u>	

*See accompanying notes to the basic financial statements.*

**THE CITY OF VERNON, TEXAS**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**SEPTEMBER 30, 2013**

	Enterprise Fund	Internal Service Funds
	Utility Fund	
Cash flows from operating activities:		
Received from customers	\$ 6,071,176	\$ 822,797
Payments to suppliers	(3,739,799)	-
Payments to employees	(781,900)	-
Payments to claimants/beneficiaries	-	(816,253)
Net cash provided by operating activities	<u>1,549,477</u>	<u>6,544</u>
Cash flows from noncapital financing activities:		
Increase in customer deposits	5,036	-
Transfers to other funds	(1,194,738)	-
Net cash used by noncapital financing activities	<u>(1,189,702)</u>	<u>-</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(78,227)	-
Issuance of long-term debt	237,000	-
Principal paid on long-term debt	(954,926)	-
Interest paid on long-term debt	(354,204)	-
Net cash used by capital and related financing activities	<u>(1,150,357)</u>	<u>-</u>
Cash flows from investing activities:		
Interest on investments	4,984	8,683
Rents received	22,036	-
Net cash provided by investing activities	<u>27,020</u>	<u>8,683</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(763,562)	15,227
Cash and Cash Equivalents - Beginning	<u>1,157,261</u>	<u>1,367,608</u>
Cash and Cash Equivalents - Ending	<u>\$ 393,699</u>	<u>\$ 1,382,835</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating income	<u>\$ 1,021,359</u>	<u>\$ 46,878</u>
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	713,342	-
Amortization of bond premium	6,429	-
(Increase) decrease in current assets:		
Customer utility receivables	(71,210)	-
Property taxes receivables	97	-
Other receivables	20,473	-
Due from other funds	(312)	-
Increase (decrease) in current liabilities:		
Accounts payable	(152,189)	(40,334)
Taxes payable	1,737	-
Due to other funds	634	-
Compensated absences	9,117	-
Total adjustments	<u>528,118</u>	<u>(40,334)</u>
Net cash provided by operating activities	<u>\$ 1,549,477</u>	<u>\$ 6,544</u>
Reconciliation of Cash and Cash Equivalents on the Statement of Net Position to the Statement of Cash Flows:		
Cash and cash equivalents	\$ 177,372	\$ 1,382,835
Restricted assets - cash and cash equivalents	216,327	-
Total cash and cash equivalents - ending	<u>\$ 393,699</u>	<u>\$ 1,382,835</u>

*See accompanying notes to the basic financial statements.*

**THE CITY OF VERNON, TEXAS**  
**STATEMENT OF ASSETS AND LIABILITIES**  
**FIDUCIARY FUNDS**  
**SEPTEMBER 30, 2013**

	<u>Agency Funds</u>
<b>Assets</b>	
Cash and cash equivalents	\$ 59,777
Total assets	<u>\$ 59,777</u>
<b>Liabilities</b>	
Payable to others	\$ 59,777
Total liabilities	<u>\$ 59,777</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, 2013**

	Budgeted Amounts		Actual	Variance With
	Original	Final		Final Budget - Positive (Negative)
<b>Revenues</b>				
Property taxes	\$ 1,388,813	\$ 1,385,000	\$ 1,378,892	\$ (6,108)
Franchise fees	704,000	600,000	564,543	(35,457)
Sales taxes	1,200,000	1,323,185	1,287,460	(35,725)
Other taxes	4,000	2,681	2,681	-
Licenses and permits	11,300	20,300	17,827	(2,473)
Cemetery income	70,000	65,287	58,308	(6,979)
Contracts	102,132	106,769	105,043	(1,726)
Swimming pool	110,952	76,592	75,927	(665)
Ambulance service	582,800	546,673	553,241	6,568
Administrative charges to other funds	899,571	899,571	899,571	-
Fines and fees	179,450	124,050	117,781	(6,269)
Grants and donations	-	22,977	27,977	5,000
Investment earnings	3,300	1,676	1,764	88
Other revenues	55,900	65,432	76,518	11,086
Total revenues	<u>5,312,218</u>	<u>5,240,193</u>	<u>5,167,533</u>	<u>(72,660)</u>
<b>Expenditures</b>				
General government	880,739	927,155	853,556	73,599
Public safety	3,522,434	3,563,325	3,609,279	(45,954)
Public works	827,856	738,603	731,769	6,834
Cemetery and parks	387,770	430,403	447,518	(17,115)
Subsidies, donations and other	393,346	397,595	418,791	(21,196)
Capital outlay	102,455	79,906	31,103	48,803
Debt service:				
Principal	252,075	257,003	303,633	(46,630)
Interest charges	44,925	52,010	127,150	(75,140)
Total expenditures	<u>6,411,600</u>	<u>6,446,000</u>	<u>6,522,799</u>	<u>(76,799)</u>
Excess of revenues over (under) expenditures	<u>(1,099,382)</u>	<u>(1,205,807)</u>	<u>(1,355,266)</u>	<u>(149,459)</u>
<b>Other Financing Sources (Uses)</b>				
Debt proceeds	63,000	32,000	-	(32,000)
Proceeds from the sale of capital assets	12,000	25,363	25,362	(1)
Transfers in	1,164,937	1,148,187	1,345,469	197,282
Transfers out	(10,000)	-	-	-
Total other financing sources (uses)	<u>1,229,937</u>	<u>1,205,550</u>	<u>1,370,831</u>	<u>165,281</u>
Net change in fund balance	130,555	(257)	15,565	15,822
Fund balances - beginning	76,621	76,621	76,621	-
Fund balances - ending	<u>\$ 207,176</u>	<u>\$ 76,364</u>	<u>\$ 92,186</u>	<u>\$ 15,822</u>

*See accompanying notes to the basic financial statements.*

**THE CITY OF VERNON, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2013**

**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, 2013**

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

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

**Fund Financial Statements**

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

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

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

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

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

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

**THE CITY OF VERNON, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)**  
**SEPTEMBER 30, 2013**

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

The City reports the following major governmental funds:

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

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

The City reports the following major enterprise fund:

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

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

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

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

The Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities. This fund was closed during the year ended September 30, 2013.

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, 2013**

**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, 2013**

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

2. Property Taxes

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

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

3. Inventories and Prepaid Items

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

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

4. Capital Assets

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

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

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

5. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. For the year ended September 30, 2013, the City has no items that qualify for reporting in this category.

**THE CITY OF VERNON, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)**  
**SEPTEMBER 30, 2013**

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

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflow of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has three types of items that qualify for reporting in this category, property taxes, franchise fees, and ambulance receivables. Property taxes, franchise fees, and ambulance receivables are unavailable and therefore cannot be recognized as revenue in the governmental funds until they are received. The balances of each at September 30, 2013 are as follows:

Property taxes	\$ 91,188
Franchise fees	25,632
Ambulance fees	<u>160,957</u>
	<u>\$277,777</u>

**6. Compensated Absences**

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

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

**7. Long-Term Obligations**

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

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

**8. Fund Balances – Governmental Funds**

Fund balances of the governmental funds are classified as follows:

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

**THE CITY OF VERNON, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)**  
**SEPTEMBER 30, 2013**

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

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

Committed Fund Balance – represents amounts that can only be used for a specific purpose because of a formal action by the City Commission. Committed amounts cannot be used for any other purpose unless the governing board removes those constraints by taking the same type of formal action. Committed fund balance amounts may be used for other purposes with appropriate due process by the governing board. Commitments are typically done through adoption and amendment of the budget. Committed fund balance amounts differ from restricted balances in that the constraints on their use do not come from outside parties, constitutional provisions, or enabling legislation. The City Commission has no committed fund balance in the General Fund as of September 30, 2013.

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. The City has no assigned fund balance in the General Fund as of September 30, 2013.

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

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

**9. Transactions Between Funds**

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

**10. Risk Management**

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; injuries to employees; employee health benefits; and other claims of various natures. The City participates in the Texas Municipal League Intergovernmental Risk Pool (TML). TML is a self-funded pool operating as a common risk management and insurance program. The agreement for the formation of TML provides that TML will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of acceptable risk levels; however each category of

**THE CITY OF VERNON, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)**  
**SEPTEMBER 30, 2013**

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

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.

11. Use of Estimates

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

**2. COMPLIANCE AND ACCOUNTABILITY**

A. Finance-Related Legal and Contractual Provisions

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

- For the year ended September 30, 2013, the City overexpended the General Fund in five 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.
- Debt covenants require the City to deposit certain amounts into a debt service sinking fund bank account for future payment of debt obligations. At September 30, 2013, the required balance was \$252,500, but the bank account was \$62,449; consequently, the balance was \$190,051 short. The City will be more diligent in monitoring the sinking fund requirements and make the necessary deposits in the future.

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

As of September 30, 2013, there were no funds with a deficit fund balance or deficit net position.

**3. DEPOSITS AND INVESTMENTS**

A. Deposits

All of the City's demand and time depository accounts are held in local banking institutions. At September 30, 2013, the carrying amount of the City's deposits (cash and interest-bearing savings accounts included in temporary investments) was \$5,118,118 and the bank balance was \$5,110,057, including fiduciary accounts. The City's cash deposits at September 30, 2013, and during the year ended September 30, 2013, 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, 2013, the carrying amount of the Corporation's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$702,660 and the bank balance was \$702,617. The Corporation's cash deposits at September 30, 2013, and during the year ended September 30, 2013, were entirely covered by FDIC insurance.

**THE CITY OF VERNON, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)**  
**SEPTEMBER 30, 2013**

**3. DEPOSITS AND INVESTMENTS (CONT'D.)**

**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, 2013, are shown below:

<u>Investment or Investment Type</u>	<u>Weighted Maturity (Days)</u>	<u>Fair Value</u>
Money market and savings accounts	1	<u>\$5,110,057</u>

The BDC's investments at September 30, 2013 are shown below:

<u>Investment or Investment Type</u>	<u>Weighted Maturity (Days)</u>	<u>Fair Value</u>
Money market accounts	1	\$445,777
Certificate of deposit	1,162	<u>256,883</u>
		<u>\$702,660</u>

**C. Analysis of Specific Deposit and Investment Risks**

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

**THE CITY OF VERNON, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)**  
**SEPTEMBER 30, 2013**

**3. DEPOSITS AND INVESTMENTS (CONT'D.)**

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.

4. Interest Rate Risk

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

5. Foreign Currency Risk

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

D. Investment Accounting Policy

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

**THE CITY OF VERNON, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)**  
**SEPTEMBER 30, 2013**

**4. RECEIVABLES**

Receivables and related allowances for uncollectibles consisted of the following items on September 30, 2013:

	<u>Gross Receivable</u>	<u>Allowance</u>	<u>Net Receivable</u>
General Fund:			
Ambulance	\$ 687,954	\$472,118	\$ 215,836
Property taxes	148,211	50,593	97,618
Sales taxes	314,196	-	314,196
Franchise fees	66,565	-	66,565
Other	9,686	-	9,686
Other Governmental Funds:			
Hotel occupancy taxes	32,060	-	32,060
Other	1,114	-	1,114
Utility Fund:			
Customers	1,125,030	574,716	550,314
Property taxes	2,710	2,667	43

The City expects to collect substantially all of the net receivables within one year, except for property taxes. The City anticipates collecting \$30,000 of the property tax receivable within one year, which is similar to the current year.

**5. CAPITAL ASSETS**

Capital asset activity for governmental activities for the year ended September 30, 2013 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	2,274,550	--	--	2,274,550
Infrastructure	2,230,501	--	--	2,230,501
Equipment, furniture, fixtures, etc.	1,852,839	135,579	13,706	1,974,712
Vehicles	2,503,639	--	32,997	2,470,642
Total capital assets being depreciated	<u>8,861,529</u>	<u>135,579</u>	<u>46,703</u>	<u>8,950,405</u>
Less accumulated depreciation for:				
Buildings and improvements	625,700	54,136	--	679,836
Infrastructure	22,265	44,606	--	66,871
Equipment, furniture, fixtures, etc.	923,933	153,699	13,706	1,063,926
Vehicles	1,351,681	175,490	32,997	1,494,174
Total accumulated depreciation	<u>2,923,579</u>	<u>427,931</u>	<u>46,703</u>	<u>3,304,807</u>
Total capital assets being depreciated, net	<u>5,937,950</u>	<u>( 292,352)</u>	<u>--</u>	<u>5,645,598</u>
Governmental activities capital assets, net	<u>\$6,918,979</u>	<u>(\$292,352)</u>	<u>\$ --</u>	<u>\$6,626,627</u>

**THE CITY OF VERNON, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)**  
**SEPTEMBER 30, 2013**

**5. CAPITAL ASSETS (CONT'D.)**

Depreciation expense was charged to departments as follows:

General Government	\$ 15,041
Public Safety	285,769
Public Works	77,628
Cemetery and Parks	<u>49,493</u>
	<u>\$427,931</u>

Business-type activities:

	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets not being depreciated:				
Land	\$ 721,690	\$ --	\$ --	\$ 721,690
Construction in progress	<u>16,673</u>	<u>--</u>	<u>3,200</u>	<u>13,473</u>
Total capital assets not being depreciated	<u>738,363</u>	<u>--</u>	<u>3,200</u>	<u>735,163</u>
Capital assets being depreciated:				
Buildings and improvements	28,042,944	28,314	--	28,071,258
Equipment, furniture, fixtures, etc.	1,239,354	28,997	7,305	1,261,046
Vehicles	<u>307,507</u>	<u>19,915</u>	<u>24,827</u>	<u>302,595</u>
Total capital assets being depreciated	<u>29,589,805</u>	<u>77,226</u>	<u>32,132</u>	<u>29,634,899</u>
Less accumulated depreciation for:				
Buildings and improvements	8,871,256	622,480	--	9,493,736
Equipment, furniture, fixtures, etc.	806,131	61,031	7,305	859,857
Vehicles	<u>225,640</u>	<u>29,831</u>	<u>24,827</u>	<u>230,644</u>
Total accumulated depreciation	<u>9,903,027</u>	<u>713,342</u>	<u>32,132</u>	<u>10,584,237</u>
Total capital assets being depreciated, net	<u>19,686,778</u>	<u>( 636,116)</u>	<u>--</u>	<u>19,050,662</u>
Business-type activities capital assets, net	<u>\$20,425,141</u>	<u>(\$636,116)</u>	<u>\$ 3,200</u>	<u>\$19,785,825</u>

Depreciation expense was charged to departments as follows:

Business-type activities:	
Water	\$422,978
Sewer	286,156
Sanitation	<u>4,208</u>
	<u>\$713,342</u>

**THE CITY OF VERNON, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)**  
**SEPTEMBER 30, 2013**

**5. CAPITAL ASSETS (CONT'D.)**

Business Development Corporation:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Capital assets not being depreciated:				
Land	\$ 99,092	\$ --	\$ --	\$ 99,092
Website development (in progress)	<u>--</u>	<u>11,244</u>	<u>--</u>	<u>11,244</u>
Total capital assets not being depreciated	<u>99,092</u>	<u>11,244</u>	<u>--</u>	<u>110,336</u>
Capital assets being depreciated:				
Buildings and improvements	585,149	--	--	585,149
Equipment, furniture, fixtures, etc.	<u>30,386</u>	<u>--</u>	<u>--</u>	<u>30,386</u>
Total capital assets being depreciated	<u>615,535</u>	<u>--</u>	<u>--</u>	<u>615,535</u>
Less accumulated depreciation for:				
Buildings and improvements	70,722	24,113	--	94,835
Equipment, furniture, fixtures, etc.	<u>25,394</u>	<u>1,221</u>	<u>--</u>	<u>26,615</u>
Total accumulated depreciation	<u>96,116</u>	<u>25,334</u>	<u>--</u>	<u>121,450</u>
Total capital assets being depreciated, net	<u>519,419</u>	<u>( 25,334)</u>	<u>--</u>	<u>494,085</u>
BDC capital assets, net	<u>\$618,511</u>	<u>(\$ 14,090)</u>	<u>\$ --</u>	<u>\$604,421</u>

**6. INTERFUND BALANCES AND ACTIVITY**

A. Due To and From Other Funds

Balances due to and due from other funds at September 30, 2013 consisted of the following:

<u>Due to Fund</u>	<u>Due From Fund</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	Other Governmental Funds	\$ 5,000	Short-term borrowings
General Fund	Enterprise Fund	2,757	Short-term borrowings
Other Governmental Funds	General Fund	101,797	Short-term borrowings
Other Governmental Funds	Enterprise Fund	1,012	Short-term borrowings
Enterprise Fund	General Fund	<u>3,589</u>	Short-term borrowings
	Total	<u>\$114,155</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, 2013**

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

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

Transfers to and from other funds at September 30, 2013 consisted of the following:

<u>Transfers To</u>	<u>Transfers From</u>	<u>Amount</u>	<u>Reason</u>
General Fund	Electric Trust Principal	\$ 12,649	Interest transfer
General Fund	Other Governmental Funds	31,503	Grant expenditures
General Fund	Other Governmental Funds	5,551	Close out fund
General Fund	Other Governmental Funds	64,600	Cemetery maintenance
General Fund	Other Governmental Funds	36,428	Aquatics center donations
General Fund	Enterprise Fund	<u>1,194,738</u>	Payment in lieu of taxes
Total		<u>\$1,345,469</u>	

**7. LONG-TERM OBLIGATIONS**

**A. Long-term Obligation Activity**

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the period ended September 30, 2013, are as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Amount Due Within One Year</u>
<b><u>Governmental Activities:</u></b>					
Certificates of obligation	\$1,315,000	\$ -	\$ 45,000	\$1,270,000	\$ 45,000
Capital leases	1,269,485	-	249,292	1,020,193	198,677
Note payable	500,000	-	10,814	489,186	16,958
Compensated absences *	<u>267,176</u>	<u>180,209</u>	<u>173,682</u>	<u>273,703</u>	<u>218,963</u>
Total governmental activities	<u>\$3,351,661</u>	<u>\$ 180,209</u>	<u>\$ 478,788</u>	<u>\$3,053,082</u>	<u>\$ 479,598</u>
<b><u>Business-type Activities:</u></b>					
Revenue bonds	\$9,355,000	\$ -	\$ 910,000	\$8,445,000	\$ 940,000
Premium on revenue bonds	151,173	-	6,429	144,744	-
Capital leases	115,453	-	44,926	70,527	28,600
Notes payable	-	237,000	-	237,000	26,937
Compensated absences *	<u>78,885</u>	<u>74,285</u>	<u>65,169</u>	<u>88,001</u>	<u>52,800</u>
Total business-type activities	<u>\$9,700,511</u>	<u>\$311,285</u>	<u>\$1,026,524</u>	<u>\$8,985,272</u>	<u>\$1,048,337</u>
<b><u>Business Development Corporation</u></b>					
Notes payable	\$2,733,515	\$ -	\$ 158,876	\$2,574,639	\$ 164,009
Capital lease	<u>4,657</u>	<u>-</u>	<u>1,823</u>	<u>2,834</u>	<u>1,982</u>
Total BDC	<u>\$2,738,172</u>	<u>\$ -</u>	<u>\$ 160,699</u>	<u>\$2,577,473</u>	<u>\$ 165,991</u>

\* - Other long-term liabilities

**THE CITY OF VERNON, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)**  
**SEPTEMBER 30, 2013**

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

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

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

**B. Outstanding Bonds**

At September 30, 2013, the City had the following bonds outstanding:

Governmental Activities:

Combination Tax and Revenue Certificates of Obligation, Series 2005 due through 2030 with interest rates ranging from 3.75% to 6.75%	<u>\$ 1,270,000</u>
--	---------------------

Business-type Activities:

General Obligation Refunding Bonds, Series 2004 due through 2016 with interest rates from 3.50% to 4.25%	1,355,000
--	-----------

Tax and Waterworks and Sewer System Surplus Revenue Certificates of Obligation, Series 2009 due through 2036 with interest rates ranging from 3.00% to 5.50%	3,095,000
--	-----------

General Obligation Refunding Bonds, Series 2010 due through 2020 with interest rates from 2.00% to 3.00%	2,285,000
--	-----------

General Obligation Refunding Bonds, Series 2012 due through 2023 with interest rates from 2.00% to 3.00%	<u>1,710,000</u>
--	------------------

Total business-type activities	<u>8,445,000</u>
--------------------------------	------------------

Total all bonds	<u>\$ 9,715,000</u>
-----------------	---------------------

**C. Debt Service Requirements on Long-Term Bonds**

Debt service requirements on long-term bonds at September 30, 2013 are as follows:

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 45,000	\$ 52,571	\$ 97,571
2015	50,000	50,284	100,284
2016	55,000	48,315	103,315
2017	55,000	46,253	101,253
2018	60,000	44,021	104,021
2019-2023	340,000	180,949	520,949
2024-2028	450,000	97,874	547,874
2029-2030	<u>215,000</u>	<u>9,516</u>	<u>224,516</u>
Totals	<u>\$1,270,000</u>	<u>\$529,783</u>	<u>\$1,799,783</u>

**THE CITY OF VERNON, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)**  
**SEPTEMBER 30, 2013**

**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>
2014	\$ 940,000	\$ 320,263	\$ 1,260,263
2015	965,000	290,663	1,255,663
2016	995,000	258,000	1,253,000
2017	610,000	222,069	832,069
2018	630,000	203,975	833,975
2019-2023	2,015,000	789,127	2,804,127
2024-2028	695,000	537,670	1,232,670
2029-2033	910,000	319,001	1,229,001
2034-2036	<u>685,000</u>	<u>58,164</u>	<u>743,164</u>
Totals	<u>\$8,445,000</u>	<u>\$2,998,932</u>	<u>\$11,443,932</u>

**D. Capital Leases**

Commitments under capitalized lease agreements for facilities and equipment provide for minimum future lease payments as of September 30, 2013 as follows:

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>
2014	\$ 231,795	\$ 30,459
2015	231,358	26,067
2016	180,005	8,729
2017	154,878	8,729
2018	43,625	-
2019-2023	218,126	-
2024-2026	<u>129,326</u>	<u>-</u>
Total minimum lease payments	1,189,113	73,984
Less amount representing interest	( 168,920)	( 3,457)
Present value of minimum lease payments	<u>\$1,020,193</u>	<u>\$ 70,527</u>

The effective interest rates on capital leases are 2.12% - 11.87%.

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

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Machinery & equipment	\$ 351,898	\$ 78,646
Vehicles	1,145,993	145,089
Less accumulated depreciation	( 388,898)	( 153,412)
Net	<u>\$1,108,993</u>	<u>\$ 70,323</u>

**THE CITY OF VERNON, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)**  
**SEPTEMBER 30, 2013**

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

**E. Notes Payable**

The City has notes payable at September 30, 2013 as follows:

Governmental Activities:

Note payable to the Waggoner National Bank to finance the balance of the aquatics center. The note is due in monthly principal payments of \$29,644 plus interest at 3.75% per annum through February 2015 when the balance of the principal and accrued interest is due. The note is unsecured. \$489,186

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. 37,000

Note payable to the Waggoner National Bank to finance the water exploration. The note is due in annual principal payments of \$20,000 plus interest at 3.75% per annum in September 2014 and 2015 with the balance of the principal and accrued interest due in September 2016. The note is unsecured. 200,000

Total business-type activities 237,000

Total all notes payable \$726,186

The debt service requirements on the notes payable at September 30, 2013 are as follows:

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 16,958	\$ 18,011	\$ 34,969
2015	472,228	7,479	479,707
Totals	\$489,186	\$ 25,490	\$514,676

<u>Year Ending September 30,</u>	<u>Business-type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 26,937	\$ 8,511	\$ 35,448
2015	27,191	7,550	34,741
2016	167,451	6,582	174,033
2017	7,633	357	7,990
2018	7,788	126	7,914
Totals	\$237,000	\$ 23,126	\$260,126

**THE CITY OF VERNON, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)**  
**SEPTEMBER 30, 2013**

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

F. Combined Debt Service Requirements

Debt service requirements on all long-term debt at September 30, 2013 are as follows:

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 260,635	\$103,700	\$ 364,335
2015	724,890	86,459	811,349
2016	212,917	70,403	283,320
2017	192,758	63,373	256,131
2918	90,682	56,964	147,646
2019-2023	512,831	226,244	739,075
2024-2028	569,666	107,534	677,200
2029-2030	<u>215,000</u>	<u>9,516</u>	<u>224,516</u>
Totals	<u>\$2,779,379</u>	<u>\$724,193</u>	<u>\$3,503,572</u>

<u>Year Ending September 30,</u>	<u>Business-type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 995,537	\$ 330,633	\$ 1,326,170
2015	1,017,200	299,271	1,316,471
2016	1,170,821	264,941	1,435,762
2017	626,181	222,607	848,788
2018	637,788	204,101	841,889
2019-2023	2,015,000	789,127	2,804,127
2024-2028	695,000	537,670	1,232,670
2029-2033	910,000	319,001	1,229,001
2034-2036	<u>685,000</u>	<u>58,164</u>	<u>743,164</u>
Totals	<u>\$8,752,527</u>	<u>\$3,025,515</u>	<u>\$11,778,042</u>

G. Continuing Disclosure

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

H. BDC Debt

The BDC has notes payable outstanding at September 30, 2013 as follows:

**THE CITY OF VERNON, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)**  
**SEPTEMBER 30, 2013**

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

The note payable to the Waggoner National Bank is payable in monthly installments of \$2,880 including interest at 4.50% per annum and is secured by real estate. The note matures in February 2025.	\$ 298,913
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.	714,774
The note payable to the Texas Leverage Fund (#2) is payable in monthly installments of \$10,533 including interest at 3.25% per annum and is secured by sales tax receipts collected by BDC. The note matures in June 2026.	1,310,975
The note payable to Herring Bank is payable in interest only until December 2013 at 3.55% per annum, then monthly installments of 240 months until December 2033. The note is secured by a certificate of deposit.	<u>249,977</u>
<b>Total</b>	<u><b>\$2,574,639</b></u>

The debt service requirements on the notes payable at September 30, 2013 are as follows:

<u>Year Ending September 30,</u>	BDC Notes Payable		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 164,009	\$ 85,658	\$ 249,667
2015	171,948	79,860	251,808
2016	177,909	73,904	251,813
2017	184,095	67,719	251,814
2018	190,499	61,314	251,813
2019-2023	1,056,763	202,305	1,259,068
2024-2028	545,993	40,380	586,373
2029-2033	79,321	8,093	87,414
2034	<u>4,102</u>	<u>23</u>	<u>4,125</u>
<b>Totals</b>	<u><b>\$2,574,639</b></u>	<u><b>\$619,256</b></u>	<u><b>\$3,193,895</b></u>

Commitments under capitalized lease agreements for facilities and equipment provide for minimum future lease payments as of September 30, 2013 as follows:

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>
2014	\$ 2,118
2015	<u>882</u>
Total minimum lease payments	3,000
Less amount representing interest	<u>( 166 )</u>
Present value of minimum lease payments	<u><b>\$ 2,834</b></u>

**THE CITY OF VERNON, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)**  
**SEPTEMBER 30, 2013**

**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:

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
Restricted for:				
Debt service	\$ -	\$ 62,450	\$ 62,450	\$256,883
Capital projects	-	6,339	6,339	-
Public improvements:				
Expendable	8,402	-	8,402	-
Nonexpendable	2,837,003	-	2,837,003	-
Perpetual care:				
Nonexpendable	252,137	-	252,137	-
Grants	2,372	-	2,372	-
Public safety	37,898	-	37,898	-
Aquatics center	41,913	-	41,913	-
Christmas decorations	11,466	-	11,466	-
Tourism	<u>207,333</u>	<u>-</u>	<u>207,333</u>	<u>-</u>
 Total restricted net assets	 <u>\$3,398,524</u>	 <u>\$ 68,789</u>	 <u>\$3,467,313</u>	 <u>\$256,383</u>
 Fund Balances:				
	Governmental Funds			Total
	General	Electric Trust Principal	Other Governmental	
Restricted for:				
Public improvements	\$ 8,402	\$2,837,003	\$ -	\$2,845,405
Grants	-	-	2,372	2,372
Public safety	-	-	37,898	37,898
Aquatics center	-	-	41,913	41,913
Christmas decorations	-	-	11,466	11,466
Tourism	-	-	207,333	207,333
Perpetual care	<u>-</u>	<u>-</u>	<u>252,137</u>	<u>252,137</u>
 Total restricted fund balance	 <u>\$ 8,402</u>	 <u>\$2,837,003</u>	 <u>\$ 553,119</u>	 <u>\$3,398,524</u>
 Committed for:				
Main Street	<u>\$ 83,784</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 83,784</u>

**9. SELF-FUNDED WORKERS COMPENSATION**

During the fiscal year ended September 30, 1992, the City began a self-insurance program for workmen's compensation. The Workmen's Compensation Fund, an internal service fund, was established for this program. Under current arrangements, this program is administered by the Texas Municipal League. Stop-loss insurance is carried to cover claims in excess of \$250,000 in the aggregate. During the fiscal year ended September 30, 2013, the Workmen's Compensation Fund expended \$46,112 for claims, stop-loss insurance premiums, and administrative costs. During the same period, the Fund did not receive any charges and fees from the General Fund, the Enterprise Fund or the BDC. Settled claims have not exceeded commercial coverage to date.

**THE CITY OF VERNON, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)**  
**SEPTEMBER 30, 2013**

**9. SELF-FUNDED WORKERS COMPENSATION (CONT'D.)**

When payments are received from the General and Enterprise Funds and the BDC, they are based on estimates of the amounts needed to pay current and prior claims and other expenses, and to establish a reserve for catastrophic losses. The estimates are based on the City's historical cost data. As of September 30, 2013, the reserve was \$88,200. The claims payable of \$15,319 are based on the requirements of GASB Statement Number 10 which requires that a liability for claims be reported if information available prior to issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the claims liability amounts in the fiscal years ended September 30, 2012 and 2013 were:

	Beginning of Year <u>Liability</u>	Current Year Claims and Changes in <u>Estimates</u>	Claims and <u>Expenses Paid</u>	Balance at <u>Year End</u>
FYE September 30, 2012	<u>\$37,959</u>	<u>(\$24,195)</u>	<u>\$ 9,974</u>	<u>\$ 3,790</u>
FYE September 30, 2013	<u>\$ 3,790</u>	<u>\$26,251</u>	<u>\$14,722</u>	<u>\$15,319</u>

**10. PENSION PLAN**

Texas Municipal Retirement System

*Plan Description*

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

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

Plan provisions for the City were as follows:

	<u>Plan Year 2012</u>	<u>Plan Year 2013</u>
Employee deposit rate	7%	7%
Matching ratio (City to employee)	2.0 to 1	2.0 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age / years of service)	60/5, 0/25	60/5, 0/25
Updated Service Credit	100% Repeating, Transfers	100% Repeating, Transfers
Annuity Increase (to retirees)	70% of CPI Repeating	70% of CPI Repeating

**THE CITY OF VERNON, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)**  
**SEPTEMBER 30, 2013**

**10. PENSION PLAN (CONT'D.)**

Contributions

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

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

The required contribution rates for fiscal year 2013 were determined as part of the December 31, 2010 and 2011 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2012, also follows:

Actuarial Assumptions

	<u>12/31/2010</u>	<u>12/31/2011</u>	<u>12/31/2012</u>
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
GASB 25 Equivalent Single Amortization Period	27.1 years; closed period	26.3 years; closed period	25.3 years; closed period
Amortization Period of New Gains/Losses	30 years	30 years	30 years
Asset Valuation Method	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market
Investment Rate of Return	7.0%	7.0%	7.0%
Projected Salary Increases	Varies by age and service	Varies by age and service	Varies by age and service
Includes inflation at	3.00%	3.00%	3.00%
Cost-of-Living adjustments	2.1%	2.1%	2.1%

**THE CITY OF VERNON, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)**  
**SEPTEMBER 30, 2013**

**10. PENSION PLAN (CONT'D.)**

Funded Status and Funding Progress

Actuarial Valuation Date	12/31/12
Actuarial Value of Assets	\$14,269,913
Actuarial Accrued Liability (AAL)	\$19,813,902
Percentage Funded	72.0%
Unfunded Actuarial Accrued Liability (UAAL)	\$5,543,989
Annual Covered Payroll	\$4,113,037
UAAL as a Percentage of Covered Payroll	134.7%
Net Pension Obligation (NPO) at the Beginning of the Period	-0-
Annual Pension Cost:	
Annual Required Contribution (ARC)	\$713,057
Interest on NPO	-0-
Adjustment to the ARC	-0-
Annual Pension Cost	<u>\$713,057</u>
Percentage of Annual Pension Costs Contributed	100%
Contributions Made	\$713,057
Increase in NPO	-0-
NPO At the End of the Period	-0-
Two preceding years:	
2011:	
Annual Pension Cost	\$638,194
Percentage of Annual Pension Costs Contributed	100%
NPO At the End of the Period	-0-
2010:	
Annual Pension Cost	\$636,382
Percentage of Annual Pension Costs Contributed	100%
NPO At the End of the Period	-0-

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

**THE CITY OF VERNON, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)**  
**SEPTEMBER 30, 2013**

**10. PENSION PLAN (CONT'D.)**

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

**11. HEALTH CARE COVERAGE**

On March 11, 1992, the City began a self-insurance medical program through establishment of the Employee Benefits Trust Fund, an internal service fund. A contract is in effect with Blue Cross Blue Shield of Texas for the administration of the fund. Stop-loss insurance coverage is carried under which the Employee Benefits Trust Fund pays the first \$55,000 of medical expenses per covered person up to an aggregate amount of \$827,484 per year. The insurance provider pays amounts in excess of the aforementioned. Settled claims have not exceeded commercial insurance coverage as of September 30, 2013. Group life insurance premiums are also paid by the Employee Benefits Trust Fund. During the fiscal year ended September 30, 2013, \$729,807 was expended for health benefits, insurance premiums and administrative costs. Charges and fees for the same period amounted to \$822,797, including \$534,943 from the General Fund, \$137,898 from the Enterprise Fund, \$140,905 from employee payroll deductions, and \$9,051 from the Business Development Corporation of Vernon. These amounts were recorded as current expenditures in the charged funds and component unit.

Both the General and Enterprise Funds and the Business Development Corporation of Vernon participate in the self-insurance program and make payments to the internal service fund based on estimates of the amounts needed to pay current and prior year claims and other expenses, and to establish a reserve for catastrophic losses. The estimates are derived from the City's historical cost experience. At September 30, 2013, the reserve was \$1,240,052.

The claims liability of \$16,220 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, 2012 and 2013 were:

	Beginning of Year <u>Liability</u>	Current Year Claims and Changes in <u>Estimates</u>	Claims and <u>Expenses Paid</u>	Balance at <u>Year End</u>
FYE September 30, 2012	<u>\$20,073</u>	<u>\$780,763</u>	<u>\$771,834</u>	<u>\$29,002</u>
FYE September 30, 2013	<u>\$29,002</u>	<u>\$729,807</u>	<u>\$742,589</u>	<u>\$16,220</u>

**THE CITY OF VERNON, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)**  
**SEPTEMBER 30, 2013**

**12. COMMITMENTS AND CONTINGENCIES**

A. Litigation

No reportable litigation was pending against the City at September 30, 2013.

B. Federal and State Grants – Compliance Audits

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

C. Unfunded Bonds

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

**13. CLOSURE AND POSTCLOSURE CARE COST**

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

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

**14. PRIOR PERIOD ADJUSTMENTS**

The City early implemented GASB Statement No. 65 which no longer capitalized and recorded bond issuance costs as assets on the Statement of Net Position. As a result, the City's net position as of September 30, 2012 has been reduced by \$14,317 for Governmental Activities, \$195,567 for Business-type Activities, and \$21,223 for the discretely presented component unit on the Statement of Activities. Furthermore, net position as of September 30, 2012 has been reduced by \$195,567 for the Enterprise Fund on the Statement of Revenues, Expenses and Changes in Net Position.

**THE CITY OF VERNON, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)**  
**SEPTEMBER 30, 2013**

**14. PRIOR PERIOD ADJUSTMENTS (CONT'D.)**

Additionally, management discovered an error on the previously reported net position of the Internal Service Funds. At September 30, 2013, \$62,125 of additional accounts payable should have been recorded increasing accounts payable and insurance claims expense. As a result, the net position as of September 30, 2012 has been reduced by \$62,125 for the Governmental Activities on the Statement of Activities and for the Internal Service Funds on the Statement of Revenues, Expenses and Changes in Net Position.

<u>Opinion Unit or Fund</u>	<u>Implementation of GASB 65</u>	<u>Correction of the AP Error</u>	<u>Total Prior Period Adjustments</u>
Governmental Activities	(\$ 14,317)	(\$62,125)	(\$ 76,442)
Business-type Activities	( 195,567)	-	( 195,567)
Discretely Presented Component Unit	( 21,223)	-	( 21,223)
Enterprise Fund	( 195,567)	-	( 195,567)
Internal Service Funds	-	( 62,125)	( 62,125)

**15. GOING CONCERN CONSIDERATION**

At September 30, 2013, the General Fund's total fund balance was \$92,186, of which \$8,402 was restricted, \$83,784 was committed, and there was no unassigned fund balance. During the year ended September 30, 2013, the General Fund's expenditures exceeded the revenues by \$1,355,266. Transfers of \$1,345,469, mostly from the Enterprise Fund, were made to cover the large deficit. Additionally, at September 30, 2013, the General Fund had to borrow \$101,797 from the Other Governmental Funds to cover its deficit cash position.

At September 30, 2013, the City's Utility Enterprise Fund had \$177,372 of unrestricted cash and cash equivalents compared to \$468,240 at September 30, 2012. Additionally, unrestricted net position decreased during the year by \$297,950 to \$432,148 at year end. The Enterprise Fund generated \$704,738 of income before transfers out to the General Fund of \$1,194,738.

The City's ability to continue operations is dependent on its ability to increase or maintain revenues and limit expenditures to obtain sufficient cash flow to fund operations, including servicing existing debt. For 2013-14, the City adopted a General Fund budget that would add \$34,291 to fund balance by September 30, 2014. This was accomplished with no property tax rate increase, no additional charges and transfers from the City's Utility Enterprise Fund, and limited capital purchases. Furthermore, the City increased water rates by \$7 per month and sanitation rates \$1 per month. The City is continuing to monitor its expenditures and future cuts may be necessary to rebuild its fund balance and net position to appropriate levels.

The accompanying financial statements do not include any adjustments that might result from the outcome of these uncertainties.

*REQUIRED SUPPLEMENTARY INFORMATION*

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

Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL)	(3) Percentage Funded (1) ÷ (2)	(4) Unfunded Actuarial Accrued Liability (UAAL) (2) - (1)	(5) Annual Covered Payroll	(6) UAAL as a Percentage of Covered Payroll (4) ÷ (5)
12/31/10	\$ 12,243,544	\$ 17,533,035	69.8%	\$ 5,289,491	\$ 3,908,797	135.3%
12/31/11	13,193,445	18,727,045	70.5%	5,533,600	3,976,783	139.1%
12/31/12	14,269,913	19,813,902	72.0%	5,543,989	4,115,037	134.7%