

**THE CITY OF VERNON, TEXAS**

**ANNUAL FINANCIAL REPORT**

**FOR THE YEAR ENDED SEPTEMBER 30, 2015**



# THE CITY OF VERNON, TEXAS

## ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2015

### TABLE OF CONTENTS

	<u>Exhibit</u>	<u>Page</u>
<b>FINANCIAL SECTION</b>		
Independent Auditor's Report		1-2
Management's Discussion and Analysis (Required Supplementary Information)		3-10
<b>BASIC FINANCIAL STATEMENTS</b>		
Statement of Net Position	A-1	11
Statement of Activities	A-2	12
Balance Sheet – Governmental Funds	A-3	13
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	A-4	14
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	A-5	15
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of the Governmental Funds to the Statement of Activities	A-6	16
Statement of Net Position – Proprietary Funds	A-7	17
Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds	A-8	18
Statement of Cash Flows – Proprietary Funds	A-9	19
Statement of Assets and Liabilities – Fiduciary Funds	A-10	20
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund	A-11	21
Notes to the Financial Statements		22-50
<b>REQUIRED SUPPLEMENTARY INFORMATION</b>		
Schedule of Changes in Net Pension Liability and Related Ratios – Texas Municipal Retirement System	B-1	51
Schedule of Contributions – Texas Municipal Retirement System	B-2	52



*FINANCIAL SECTION*





# EDGIN, PARKMAN, FLEMING & FLEMING, PC

CERTIFIED PUBLIC ACCOUNTANTS

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

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

## Independent Auditor's Report

Honorable Mayor and  
Members of the City Commission  
The City of Vernon, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Vernon, Texas (City) as of and for the year ended September 30, 2015, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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, 2015, 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.

## Emphasis of Matter

### *Change in Accounting Principle*

As described in Note 1 to the financial statements, in 2015, the City adopted new accounting guidance, Government Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

## Other Matters

### *Required Supplementary Information*

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

## Other Matters

In accordance with *Government Auditing Standards*, we have also issued under separate cover our report dated February 11, 2016, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

*Edgin, Parkman, Fleming & Fleming, PC*

EDGIN, PARKMAN, FLEMING & FLEMING, PC

Wichita Falls, Texas  
February 11, 2016

## 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, 2015. 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 \$16,722,808 (net position). Of this amount, \$(3,005,749) (unrestricted net position) may be used to meet the City's obligations.
- During the year, the City's total net position increased by \$2,294,498 (before the prior period adjustment of \$(5,201,638)).
- The governmental funds reported a fund balance this year of \$3,978,487, which is an increase of \$209,599 in comparison with the prior year amount of \$3,768,888 or 5.5%. Of this total fund balance, \$312,940 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 \$312,940. \$3,665,547 of the total Governmental Funds fund balances are either restricted or committed.

### OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

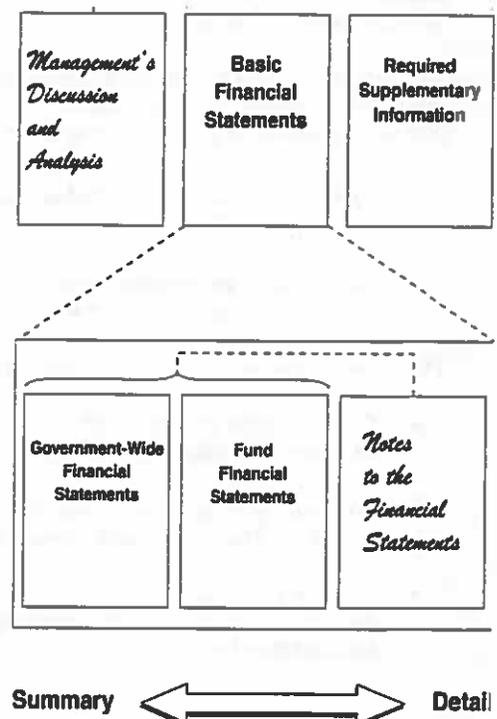


Figure A-2 summarizes the major features of the City's financial statements, including the portion of the City's government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each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

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

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

### Government-wide Statements

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

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

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

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

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

## Fund Financial Statements

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

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

The City has the following kinds of funds:

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

## FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

**Net position.** The City's combined net position was \$16,722,808 at September 30, 2015. (See Table A-1)

Table A-1  
City's Net Position

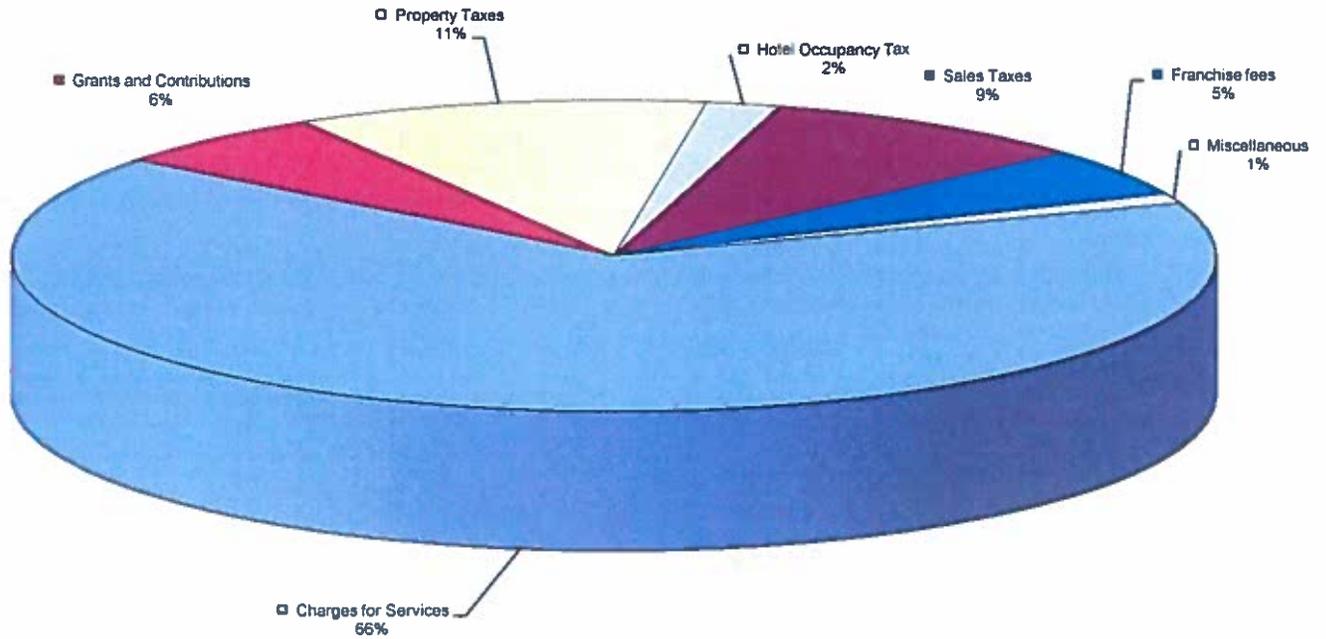
	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Current and other assets	\$ 5,907,815	\$ 5,823,919	\$ 1,260,914	\$ 103,339	\$ 7,168,729	\$ 5,727,258
Capital assets, net	6,857,520	6,446,483	18,482,484	19,177,181	25,140,004	25,623,664
Total assets	12,565,335	12,070,402	19,743,398	19,280,520	32,308,733	31,350,922
Deferred Outflows of Resources						
Related to Pension Plan	581,152	-	138,193	-	699,345	-
Current and other liabilities	1,039,918	1,388,638	1,590,999	1,440,873	2,830,917	2,829,511
Long-term liabilities	6,371,806	1,947,919	6,797,393	6,943,544	13,169,199	8,891,463
Total liabilities	7,411,724	3,336,557	8,388,392	8,384,417	15,800,116	11,720,974
Deferred Inflows of Resources						
Related to Pension Plan	389,482	-	95,672	-	485,154	-
Net assets						
Invested in capital assets, net of related debt	4,318,877	3,812,056	11,576,869	11,239,490	15,893,746	15,051,546
Restricted	3,572,122	3,488,315	282,889	258,004	3,834,811	3,746,319
Unrestricted	(2,563,718)	1,433,474	(442,031)	(601,391)	(3,005,749)	832,083
Total net assets	\$ 5,325,281	\$ 8,733,845	\$ 11,397,527	\$ 10,696,103	\$ 16,722,808	\$ 19,629,948

The \$(3,005,749) of unrestricted net position at September 30, 2015 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.

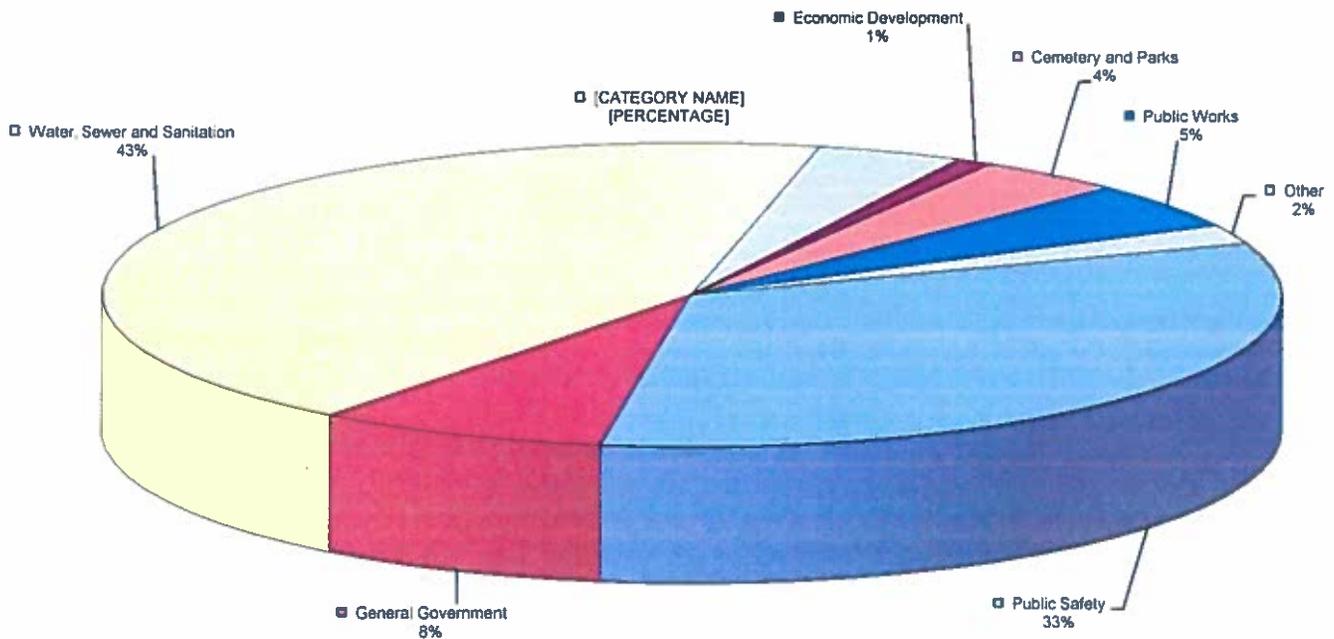
**Changes in net position.** The City's total revenues, both program and general, were \$13,726,010. A significant portion, 66%, of the City's revenue comes from charges for services. (See Figure A-3.) 6% comes from operating and capital grants and contributions, 9% comes from sales taxes, 11% from property taxes and 5% from franchise fees. Other minor categories combined make up 3% of the City's total revenues.

The total cost of all programs and services was \$11,431,512, 43% of these costs are for water, sewer and sanitation related expenses. The City's expenses cover a range of services, with 33% related to public safety, 5% for public works, 4% for cemetery, 3% for Economic Development and Other, 4% for Subsidies, Donations and other, and 8% general government. (See Figure A-4.)

**Figure A-3**  
**Source of Revenue for Fiscal Year 2015**



**Figure A-4**  
**Functional Expense for Fiscal Year 2015**



## 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	
	2015	2014	2015	2014	2015	2014
<b>Revenues</b>						
<b>Program revenues</b>						
Charges for services	\$ 1,437,293	\$ 1,987,598	\$ 7,591,177	\$ 6,321,179	\$ 9,028,470	\$ 8,308,775
Operating and capital grants	162,685	121,060	-	-	162,685	121,060
Capital Grants and Contributions	701,659	-	-	-	701,659	-
<b>General revenues</b>						
Property taxes	1,454,478	1,376,250	-	-	1,454,478	1,376,250
Sales taxes	1,192,938	1,207,828	-	-	1,192,938	1,207,828
Franchise fees	720,439	596,890	-	-	720,439	596,890
Other taxes	308,253	362,005	-	-	308,253	362,005
Investment earnings	38,762	31,947	6,514	2,497	45,276	34,444
Gain on sale of capital assets			-	-	-	-
Seizure income			-	-	-	-
Miscellaneous	63,872	128,820	47,940	15,715	111,812	144,535
<b>Total revenues</b>	<b>6,080,379</b>	<b>5,812,394</b>	<b>7,645,631</b>	<b>6,339,391</b>	<b>13,726,010</b>	<b>12,151,785</b>
<b>Expenses</b>						
General government	869,629	944,228			869,629	944,228
Public safety	3,744,903	4,113,918			3,744,903	4,113,918
Public works	616,429	796,472			616,429	796,472
Cemetery and Parks	513,620	524,324			513,620	524,324
Subsidies, donations, and other	440,905	429,100			440,905	429,100
Christmas decorations	4,909	10,743			4,909	10,743
Civic and cultural	171,947	197,313			171,947	197,313
Economic development	75,108	125,074			75,108	125,074
Interest	91,520	102,927			91,520	102,927
Water, sewer and sanitation			4,902,542	5,477,650	4,902,542	5,477,650
Other						
<b>Total expenses</b>	<b>6,528,970</b>	<b>7,244,099</b>	<b>4,902,542</b>	<b>5,477,650</b>	<b>11,431,512</b>	<b>12,721,749</b>
<b>Transfers</b>	<b>1,194,721</b>	<b>1,517,868</b>	<b>(1,194,721)</b>	<b>(1,517,868)</b>	<b>-</b>	<b>-</b>
<b>Change in net position</b>	<b>746,130</b>	<b>86,163</b>	<b>1,548,368</b>	<b>(656,127)</b>	<b>2,294,498</b>	<b>(569,964)</b>
<b>Net position - beginning</b> (as originally stated)	<b>8,733,845</b>	<b>8,622,048</b>	<b>10,896,103</b>	<b>11,552,230</b>	<b>19,629,948</b>	<b>20,174,278</b>
Prior period adjustment	(4,154,694)	25,634	(1,046,944)	-	(5,201,638)	25,634
<b>Net position - beginning</b> (as restated)	<b>4,579,151</b>	<b>8,647,682</b>	<b>9,849,159</b>	<b>11,552,230</b>	<b>14,428,310</b>	<b>20,199,912</b>
<b>Net position - ending</b>	<b>\$ 5,325,281</b>	<b>\$ 8,733,845</b>	<b>\$ 11,397,527</b>	<b>\$ 10,896,103</b>	<b>\$ 16,722,808</b>	<b>\$ 19,629,948</b>

The most significant fluctuation between years relates to the following:

- Charges for Services increased by \$719,695, which is due to rate increases.
- Capital Grants and Contributions increased \$701,659 due to two Community Development Block Grants and the donation of a commercial building.
- Franchise Fees increased by \$123,549 due to the change in deferred inflows related to the receivable.
- Expenses decreased overall by \$1,290,237 due to personnel, other spending cuts and lower fuel prices.

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 \$6,528,970; however, the amount that our taxpayers paid for these activities through property taxes was \$1,454,478.
- Some of the cost was paid by those who directly benefited from the programs through charges for services of \$1,437,293.

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

	Total Cost of Services		Net Cost of Services	
	2015	2014	2015	2014
General government	\$ 869,629	\$ 944,228	\$ 686,684	\$ 671,012
Public safety	3,744,903	4,113,918	2,579,129	2,700,592
Public works	616,429	796,472	(19,211)	687,542
Cemetery and parks	513,620	524,324	350,564	280,532
Economic development	75,108	125,074	75,108	125,074
Subsidies, donations and other	440,905	429,100	292,812	365,878
Christmas decorations	4,909	10,743	(1,220)	4,573
Civic and cultural	171,947	197,313	171,947	197,313

**FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

Revenues from governmental funds totaled \$5,915,679 an increase of \$183,895 or 3%. The largest increase was an increase in Grants and donations of \$724,432 or 517%. Administrative charges to other funds decreased \$618,166 or 69%.

Expenditures from governmental funds totaled \$6,902,724, a decrease of \$216,320 or 3%. The largest decrease was in Public Safety, a decrease of \$325,198 or 9%. The second largest increase was in Public Works, which was a decrease of \$164,972 or 24%. This was mostly due to spending cuts and lower fuel prices.

Transfers to the general fund decreased by \$367,531 or 22%.

**General Fund Budgetary Highlights**

Over the course of the year, the City revised its budget by undertaking a system-wide dramatic cost restructuring approach. City worked with financial experts throughout the State of Texas familiar with West Texas region and resulting cash-flow problems from extended drought. City pursued refinancing opportunities, lowered retirement contribution rate to TMRS (Texas Municipal Retirement System), and froze pay plan and all raises. All programs and services were examined for possible cuts, and City implemented layoffs, furloughs, and program deferrals including street maintenance.

Franchise revenue rebounded with more heating gas sold in prior year's winter. Court revenue was down because Police and Code Enforcement issued fewer tickets due to significantly higher local compliance with laws and Quarter 3 and 4 layoffs. Sales Tax was affected by energy interests contracting that utilize local businesses when traveling. Statewide drought continued to negatively impact water revenue because the City was not able to sell water to meet historical household demand, and rate increases were implemented with strong minimum monthly bill rates to more align fixed costs to fixed revenues. The City usually depends on robust water sales to rebuild revenue; however, this has not happened in recent years.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

At September 30, 2015, the City had invested in a broad range of capital assets totaling \$25,623,664, including land, equipment, buildings, and vehicles. (See Table A-4.)

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

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Land	\$ 981,029	\$ 981,029	\$ 721,690	\$ 721,690	\$ 1,702,719	\$ 1,702,719
Construction in progress	-	12,972	-	-	-	12,972
Buildings and improvements	1,487,105	1,540,829	17,442,300	18,071,844	18,929,405	19,612,673
Infrastructure	2,654,248	2,119,024	-	-	2,654,248	2,119,024
Equipment, furniture, fixtures	680,824	795,470	295,555	341,013	976,379	1,136,483
Vehicles	854,314	997,159	22,939	42,634	877,253	1,039,793
<b>Total net assets</b>	<b>\$ 6,657,520</b>	<b>\$ 6,446,483</b>	<b>\$ 18,482,484</b>	<b>\$ 19,177,181</b>	<b>\$ 25,140,004</b>	<b>\$ 25,623,664</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 2016, the City plans capital additions including:

**GENERAL**

None \$0

**ENTERPRISE**

Bulk Water Purchases	\$273,250
New Environmental Regulations and Testing	5,000
Upgrades to Water Production (Booster Station)	28,000
Nitrate Bead Replacement (Tank 2)	73,000
Water Transmission Line (Partial)	44,000
Water Sourcing/Infrastructure	<u>350,000</u>
Total	<u>\$773,250</u>

**Long-term Obligations**

At September 30, 2015, the City had \$9,582,304 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	
	2015	2014	2015	2014	2015	2014
Certificates of Obligation	\$ 1,175,000	\$ 1,225,000	\$ -	\$ -	\$ 1,175,000	\$ 1,225,000
Capital Leases	618,671	822,116	16,918	41,927	635,589	864,043
Notes payable	546,972	587,311	216,812	252,450	763,784	839,761
Compensated absences	257,040	291,938	79,006	76,918	336,046	368,856
Revenue Bonds	-	-	6,671,885	7,643,314	6,671,885	7,643,314
<b>Total</b>	<b>\$ 2,597,683</b>	<b>\$ 2,926,365</b>	<b>\$ 6,984,621</b>	<b>\$ 8,014,609</b>	<b>\$ 9,582,304</b>	<b>\$ 10,940,974</b>

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

**Increases/Decreases in Revenue**

In the General Fund, the tax revenue was increased for fiscal year ending 2016 by an estimated \$833,554 which is a 58.08% increase from last year's budget. The tax value increased by \$27,312,383 for 2015 due to real property values. The 2015 rate is \$0.35437 for Maintenance and Operation and \$.17750 for Interest and Sinking Fund and is above the effective tax rate. The total amount of municipal debt secured by property taxes is \$678,158.

9.6% decreases in revenues were approved in Water and Sewer revenue to account for lower water (\$193,636) and sanitation revenues (\$91,782).

**Decreases/Increases in Expenses**

General Fund Expenses were increased by 4.3% from the actual 2015 expenditures.

In the Enterprise Fund, expenses were reduced by 4.4% due to the lower operating cost, staff reduction and lower fuel cost.

The Adopted budget shows an increase of \$184,937 in General Fund Balance and \$63,681 in the Utility (Enterprise) Fund for a total, if realized, of a \$248,618 increase in the City's net position for fiscal year ending 2015.

**CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

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

***BASIC FINANCIAL STATEMENTS***



**THE CITY OF VERNON, TEXAS**  
**STATEMENT OF NET POSITION**  
**SEPTEMBER 30, 2015**

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
<b>Assets</b>				
Cash and cash equivalents	\$ 3,674,389	\$ 1,127,951	\$ 4,802,340	\$ 544,392
Receivables:				
Due from primary government	-	-	-	105,252
Customers (net)	-	642,097	642,097	-
Ambulance (net)	405,598	-	405,598	-
Property taxes (net)	104,750	12	104,762	-
Sales taxes	312,931	-	312,931	-
Hotel occupancy taxes	25,465	-	25,465	-
Franchise fees	256,267	-	256,267	-
Grants	30,764	-	30,764	-
Other	4,767	-	4,767	-
Internal balances	921,754	(921,754)	-	-
Other assets	-	450	450	-
Assets held for sale	127,800	-	127,800	-
Restricted assets:				
Cash and cash equivalents	43,330	412,158	455,488	-
Capital assets not being depreciated	981,029	721,690	1,702,719	110,336
Capital assets being depreciated (net)	5,676,491	17,760,794	23,437,285	443,597
<b>Total assets</b>	<u>12,565,335</u>	<u>19,743,398</u>	<u>32,308,733</u>	<u>1,203,577</u>
<b>Deferred Outflows of Resources</b>				
Pension plan related	561,152	138,193	699,345	-
<b>Liabilities</b>				
Accounts payable	454,616	164,304	618,920	-
Taxes payable	3,608	9,706	13,314	-
Due to component unit	105,252	-	105,252	-
Accrued interest payable	14,952	11,254	26,206	-
Customer deposits	-	178,070	178,070	-
Long-term liabilities:				
Portion due or payable within one year	461,490	1,227,665	1,689,155	144,589
Portion due or payable after one year	2,136,193	5,756,956	7,893,149	1,602,304
Net pension liability	4,235,613	1,040,437	5,276,050	-
<b>Total liabilities</b>	<u>7,411,724</u>	<u>8,388,392</u>	<u>15,800,116</u>	<u>1,746,893</u>
<b>Deferred Inflows of Resources</b>				
Pension plan related	389,482	95,672	485,154	-
<b>Net Position</b>				
Net investment in capital assets	4,316,877	11,576,869	15,893,746	553,933
Restricted	3,572,122	262,689	3,834,811	-
Unrestricted	(2,563,718)	(442,031)	(3,005,749)	(1,097,249)
<b>Total net position</b>	<u>\$ 5,325,281</u>	<u>\$ 11,397,527</u>	<u>\$ 16,722,808</u>	<u>\$ (543,316)</u>

*See accompanying notes to the basic financial statements.*

**THE CITY OF VERNON, TEXAS**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2015**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary government:</b>				
<b>Governmental activities:</b>				
General government	\$ 869,629	\$ 146,420	\$ 36,525	\$ -
Public safety	3,744,903	1,078,630	60,595	26,549
Public works	616,429	26,586	59,436	549,618
Cemetery and parks	513,620	163,056	-	-
Subsidies, donations and other	440,905	22,601	-	125,492
Christmas decorations	4,909	-	6,129	-
Civic and cultural	171,947	-	-	-
Economic development	75,108	-	-	-
Interest expense	91,520	-	-	-
Total governmental activities	<u>6,528,970</u>	<u>1,437,293</u>	<u>162,685</u>	<u>701,659</u>
<b>Business-type activities:</b>				
Water	1,967,677	3,776,792	-	-
Sewer	1,275,307	2,177,246	-	-
Sanitation	1,507,186	1,500,123	-	-
Other	152,372	137,016	-	-
Total business-type activities	<u>4,902,542</u>	<u>7,591,177</u>	<u>-</u>	<u>-</u>
<b>Total primary government</b>	<u>\$ 11,431,512</u>	<u>\$ 9,028,470</u>	<u>\$ 162,685</u>	<u>\$ 701,659</u>
<b>Component unit:</b>				
Business Development Corporation of Vernon	<u>\$ 293,556</u>	<u>\$ 30,000</u>	<u>\$ -</u>	<u>\$ -</u>
<b>General revenues and transfers:</b>				
<b>Taxes:</b>				
Property taxes				
Franchise fees				
Sales taxes				
Hotel occupancy taxes				
Other taxes				
Interest earnings				
Grant recoveries				
Miscellaneous				
Transfers				
Total general revenues and transfers				
<b>Change in net position</b>				
Net position - beginning, as originally stated				
Prior period adjustment				
Net position - beginning, as restated				
Net position - ending				

*See accompanying notes to the basic financial statements.*

**Net (Expense) Revenue and Changes in Net Position**

<b>Primary Government</b>			
<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>	<b>Component Unit</b>
\$ (686,684)	\$ -	\$ (686,684)	\$ -
(2,579,129)	-	(2,579,129)	-
19,211	-	19,211	-
(350,564)	-	(350,564)	-
(292,812)	-	(292,812)	-
1,220	-	1,220	-
(171,947)	-	(171,947)	-
(75,108)	-	(75,108)	-
(91,520)	-	(91,520)	-
<u>(4,227,333)</u>	<u>-</u>	<u>(4,227,333)</u>	<u>-</u>
-	1,809,115	1,809,115	-
-	901,939	901,939	-
-	(7,063)	(7,063)	-
-	(15,356)	(15,356)	-
-	2,688,635	2,688,635	-
<u>(4,227,333)</u>	<u>2,688,635</u>	<u>(1,538,698)</u>	<u>-</u>
-	-	-	<u>(263,556)</u>
1,454,478	-	1,454,478	-
720,439	-	720,439	-
1,192,938	-	1,192,938	596,469
303,649	-	303,649	-
4,604	-	4,604	-
38,762	6,514	45,276	859
-	-	-	15,000
63,872	47,940	111,812	-
<u>1,194,721</u>	<u>(1,194,721)</u>	<u>-</u>	<u>-</u>
<u>4,973,463</u>	<u>(1,140,267)</u>	<u>3,833,196</u>	<u>612,328</u>
<u>746,130</u>	<u>1,548,368</u>	<u>2,294,498</u>	<u>348,772</u>
8,733,845	10,896,103	19,629,948	(892,088)
<u>(4,154,694)</u>	<u>(1,046,944)</u>	<u>(5,201,638)</u>	<u>-</u>
<u>4,579,151</u>	<u>9,849,159</u>	<u>14,428,310</u>	<u>(892,088)</u>
<u>\$ 5,325,281</u>	<u>\$ 11,397,527</u>	<u>\$ 16,722,808</u>	<u>\$ (543,316)</u>

**THE CITY OF VERNON, TEXAS**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**SEPTEMBER 30, 2015**

	General	Electric Trust Principal	Other Governmental	Total Governmental Funds
<b>Assets</b>				
Cash and cash equivalents	\$ 131,312	\$ 2,847,381	\$ 586,481	\$ 3,565,174
Receivables:				
Ambulance (net)	405,598	-	-	405,598
Property taxes (net)	104,750	-	-	104,750
Sales taxes	312,931	-	-	312,931
Franchise fees	61,815	-	-	61,815
Hotel occupancy taxes	-	-	25,465	25,465
Grants	-	-	30,764	30,764
Other	4,767	-	-	4,767
Due from other funds	41,850	-	20,422	62,272
Assets held for sale	127,800	-	-	127,800
Restricted assets:				
Cash and cash equivalents	43,330	-	-	43,330
<b>Total assets</b>	<b><u>\$1,234,153</u></b>	<b><u>\$ 2,847,381</u></b>	<b><u>\$ 663,132</u></b>	<b><u>\$ 4,744,666</u></b>
<b>Liabilities, deferred inflows of resources, and fund balances</b>				
Liabilities:				
Accounts payable	\$ 116,222	\$ -	\$ 32,783	\$ 149,005
Taxes payable	3,608	-	-	3,608
Due to other funds	23,402	-	37,622	61,024
Due to component unit	105,252	-	-	105,252
<b>Total liabilities</b>	<b><u>248,484</u></b>	<b><u>-</u></b>	<b><u>70,405</u></b>	<b><u>318,889</u></b>
Deferred inflows of resources:				
Unavailable revenues	447,290	-	-	447,290
Fund balances:				
Restricted	132,014	2,847,381	592,727	3,572,122
Committed	93,425	-	-	93,425
Unassigned	312,940	-	-	312,940
<b>Total fund balances</b>	<b><u>538,379</u></b>	<b><u>2,847,381</u></b>	<b><u>592,727</u></b>	<b><u>3,978,487</u></b>
<b>Total liabilities, deferred inflows of resources, and fund balances</b>	<b><u>\$1,234,153</u></b>	<b><u>\$ 2,847,381</u></b>	<b><u>\$ 663,132</u></b>	<b><u>\$ 4,744,666</u></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, 2015**

Total fund balances - governmental funds (Exhibit A-3)		\$ 3,978,487
Amounts reported for <i>governmental activities</i> in the Statement of Net Position (Exhibit A-1) are different because:		
Capital assets used in governmental activities are not financial resources and therefore not reported in the funds. Capital assets at year-end consist of:		
Gross capital assets	\$ 10,550,946	
Related accumulated depreciation	<u>3,893,426</u>	6,657,520
Property taxes receivable are not available to pay for current period expenditures and therefore are deferred inflows of resources in the funds.		100,143
Ambulance fees receivable are not available to pay for current period expenditures and therefore are deferred inflows of resources in the funds.		347,147
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.		194,452
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	1,175,000	
Capital leases	618,671	
Notes payable	546,972	
Compensated absences	<u>257,040</u>	(2,597,683)
Interest payable on long-term debt is not due and payable in the current period and therefore not reported as liabilities in the funds. Accrued interest at year-end was:		(14,952)
The City's net pension liability and related deferred outflows and inflows related to its participation in the Texas Municipal Retirement System do not meet criteria to be reported in the governmental funds financial statements. These items consist of:		
Deferred outflows of resources - pension plan related	561,152	
Net pension liability	(4,235,613)	
Deferred inflows of resources - pension plan related	<u>(389,482)</u>	(4,063,943)
The assets and liabilities of the internal service funds are included in the governmental activities in the Statement of Net Position.		<u>724,110</u>
Total net position - governmental activities (Exhibit A-1)		<u>\$ 5,325,281</u>

*See accompanying notes to the basic financial statements.*

**THE CITY OF VERNON, TEXAS**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN**  
**FUND BALANCES - GOVERNMENTAL FUNDS**  
**SEPTEMBER 30, 2015**

	General	Electric Trust Principal	Other Governmental	Total Governmental Funds
<b>Revenues</b>				
Property taxes	\$ 1,449,439	\$ -	\$ -	\$ 1,449,439
Franchise fees	672,138	-	-	672,138
Sales taxes	1,192,938	-	-	1,192,938
Hotel occupancy taxes	-	-	303,649	303,649
Other taxes	4,604	-	-	4,604
Licenses and permits	9,649	-	-	9,649
Cemetery income	58,348	-	-	58,348
Contracts	165,178	-	-	165,178
Swimming pool	79,781	-	-	79,781
Ambulance service	646,561	-	-	646,561
Administrative charges to other funds	281,405	-	-	281,405
Fines and fees	97,863	-	-	97,863
Grants and donations	126,992	-	737,352	864,344
Investment earnings	3,622	18,489	3,799	25,910
Other revenues	58,238	-	5,634	63,872
<b>Total revenues</b>	<b>4,846,756</b>	<b>18,489</b>	<b>1,050,434</b>	<b>5,915,679</b>
<b>Expenditures</b>				
General government	773,415	-	69,035	842,450
Public safety	3,322,260	-	77,329	3,399,589
Public works	518,649	-	-	518,649
Cemetery and parks	448,738	-	-	448,738
Subsidies, donations and other	440,905	-	-	440,905
Christmas decorations	-	-	4,909	4,909
Civic and cultural	-	-	171,947	171,947
Economic development	-	-	75,108	75,108
Capital outlay	11,748	-	595,131	606,879
Debt service:				
Principal	293,783	-	-	293,783
Interest charges	99,767	-	-	99,767
<b>Total expenditures</b>	<b>5,909,265</b>	<b>-</b>	<b>993,459</b>	<b>6,902,724</b>
<b>Excess of revenues over (under) expenditures</b>	<b>(1,062,509)</b>	<b>18,489</b>	<b>56,975</b>	<b>(987,045)</b>
<b>Other Financing Sources (Uses)</b>				
Proceeds from sale of perpetual care spaces	-	-	1,923	1,923
Transfers in	1,260,470	-	46,464	1,306,934
Transfers out	(53,518)	(12,726)	(45,969)	(112,213)
<b>Total other financing sources (uses)</b>	<b>1,206,952</b>	<b>(12,726)</b>	<b>2,418</b>	<b>1,196,644</b>
<b>Net change in fund balance</b>	<b>- 144,443 -</b>	<b>5,763</b>	<b>59,393</b>	<b>209,599</b>
<b>Fund balances - beginning</b>	<b>393,936</b>	<b>2,841,618</b>	<b>533,334</b>	<b>3,768,888</b>
<b>Fund balances - ending</b>	<b>\$ 538,379</b>	<b>\$ 2,847,381</b>	<b>\$ 592,727</b>	<b>\$ 3,978,487</b>

*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, 2015**

Net change in fund balances - total governmental funds (Exhibit A-5)		\$ 209,599
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	\$ 606,479	
Depreciation expense for the year	<u>393,099</u>	213,380
The net book value of the capital assets disposed of during the year are not reported in the fund financial statements. However, in the Statement of Activities, the net book value of the capital assets disposed of during the year are recorded and were:		
		(2,343)
Because certain receivables will not be collected for several months after the City's fiscal year ends, they are not considered 'available' revenues and are deferred in the governmental funds. The deferred inflow portions changed by these amounts this year:		
Property taxes	5,039	
Ambulance fees	96,585	
Franchise fees	<u>48,301</u>	149,925
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	50,000	
Note payable	40,339	
Capital leases payable	<u>203,445</u>	293,784
Accrued interest payable from the beginning of the year to the end of the year changed by:		8,246
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:		34,898
The City participates in an agent multiple-employer defined benefit pension plan. Contributions to the plan are expenditures at the fund level when payments are due. At the government-wide level, pension expenses are recognized on an actuarial basis. Payments exceeded the actuarial expense in the current year.		90,751
The internal service funds' activities related to the General Fund are included in the Statement of Activities of the governmental activities.		<u>(252,110)</u>
Change in net position of governmental activities (Exhibit A-2)		<u>\$ 746,130</u>

*See accompanying notes to the basic financial statements.*

**THE CITY OF VERNON, TEXAS**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
**SEPTEMBER 30, 2015**

	Enterprise Fund	Internal Service Funds
	Utility Fund	
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 1,127,951	\$ 109,215
Receivables:		
Customers (net)	642,097	-
Property taxes (net)	12	-
Due from other funds	3,672	-
Other assets	450	11,707
Note receivable, current portion	-	78,004
Restricted assets:		
Cash and cash equivalents	412,158	-
Total current assets	<u>2,186,340</u>	<u>198,926</u>
<b>Long-term assets:</b>		
Note receivable, net of current portion	-	870,663
Capital assets not being depreciated	721,690	-
Capital assets being depreciated (net)	17,760,794	-
Total long-term assets	<u>18,482,484</u>	<u>870,663</u>
<b>Total assets</b>	<u>20,668,824</u>	<u>1,069,589</u>
<b>Deferred Outflows of Resources:</b>		
Pension plan related	<u>138,193</u>	<u>-</u>
<b>Liabilities</b>		
<b>Current liabilities:</b>		
Accounts payable	164,304	305,611
Taxes payable	9,706	-
Due to other funds	4,920	-
Accrued interest payable	22,961	-
Customer deposits	178,070	-
Current maturities of long-term obligations	1,305,669	-
Total current liabilities	<u>1,685,630</u>	<u>305,611</u>
<b>Long-term liabilities:</b>		
Long-term obligations, less current maturities	6,627,619	-
Net pension liability	1,040,437	-
Total long-term liabilities	<u>7,668,056</u>	<u>-</u>
<b>Total liabilities</b>	<u>9,353,686</u>	<u>305,611</u>
<b>Deferred Inflows of Resources:</b>		
Pension plan related	<u>95,672</u>	<u>-</u>
<b>Net Position</b>		
Net investment in capital assets	11,576,869	-
Restricted	262,689	-
Unrestricted	(481,899)	763,978
Total net position	<u>11,357,659</u>	<u>\$ 763,978</u>
<b>Reconciliation to government-wide statement of net position:</b>		
Adjustment to reflect the consolidation of the Internal Service Funds' activities related to the Enterprise Fund	39,868	
Net position of business-type activities	<u>\$ 11,397,527</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, 2015**

	Enterprise Fund	Internal Service Funds
	Utility Fund	Funds
Operating revenues:		
Water revenues	\$ 3,748,464	\$ -
Sewer revenues	2,177,246	-
Sanitation revenues	1,500,123	-
Charges and fees	-	816,974
Late fees	137,016	-
Other revenues	47,940	-
Total operating revenues	7,610,789	816,974
Operating expenses:		
Billing and collection	227,304	-
Water	1,276,278	-
Sewer	750,721	-
Sanitation	1,417,926	-
Insurance claims and related	-	1,153,240
Bad debts	102,453	-
Depreciation	703,336	-
Other operating expenses	49,919	-
Total operating expenses	4,527,937	1,153,240
Operating income (loss)	3,082,852	(336,266)
Nonoperating revenues (expenses):		
Interest income	6,514	12,852
Rent income	28,328	-
Interest expense	(303,301)	-
Total nonoperating revenues (expenses)	(268,459)	12,852
Income (loss) before transfers	2,814,393	(323,414)
Transfers in	10,136	-
Transfers out	(1,204,857)	-
Net transfers	(1,194,721)	-
Change in net position	1,619,672	(323,414)
Net position - beginning, as originally stated	10,784,931	1,087,392
Prior period adjustments	(1,046,944)	-
Net position - beginning, as restated	9,737,987	1,087,392
Net position - ending	\$ 11,357,659	\$ 763,978
Reconciliation to government-wide statement of activities:		
Adjustment to reflect the consolidation of the Internal Service Fund's activities related to the Enterprise Fund	(71,304)	
Change in net position of the business-type activities	\$ 1,548,368	

*See accompanying notes to the basic financial statements.*

**THE CITY OF VERNON, TEXAS**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**SEPTEMBER 30, 2015**

	<u>Enterprise Fund</u>	<u>Internal Service Funds</u>
	<u>Utility Fund</u>	
<b>Cash flows from operating activities:</b>		
Received from customers	\$ 7,457,278	\$ 816,974
Payments to suppliers	(3,122,835)	-
Payments to employees	(748,987)	-
Payments to claimants/beneficiaries	-	(970,997)
Net cash provided (used) by operating activities	<u>3,585,456</u>	<u>(154,023)</u>
<b>Cash flows from noncapital financing activities:</b>		
Increase in customer deposits	5,003	-
Transfers from other funds	10,136	-
Transfers to other funds	(1,204,857)	-
Net cash used by noncapital financing activities	<u>(1,189,718)</u>	<u>-</u>
<b>Cash flows from capital and related financing activities:</b>		
Acquisition and construction of capital assets	(8,639)	-
Principal paid on long-term debt	(1,025,647)	-
Interest paid on long-term debt	(306,876)	-
Net cash used by capital and related financing activities	<u>(1,341,162)</u>	<u>-</u>
<b>Cash flows from investing activities:</b>		
Interest on investments	6,514	1,146
Rents received	28,328	-
Net cash provided by investing activities	<u>34,842</u>	<u>1,146</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>1,089,418</b>	<b>(152,877)</b>
<b>Cash and Cash Equivalents - Beginning</b>	<b>450,691</b>	<b>262,092</b>
<b>Cash and Cash Equivalents - Ending</b>	<b><u>\$ 1,540,109</u></b>	<b><u>\$ 109,215</u></b>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:</b>		
Operating income (loss)	<u>\$ 3,082,852</u>	<u>\$ (336,266)</u>
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	703,336	-
Amortization of bond premium	6,429	-
(Increase) decrease in current assets and deferred outflows of resources:		
Customer utility receivables	(152,550)	-
Due from other funds	(46)	-
Deferred outflows of resources	(29,437)	-
Increase (decrease) in current liabilities and deferred inflows of resources:		
Accounts payable	2,846	182,243
Taxes payable	(35,576)	-
Due to other funds	1,429	-
Compensated absences	2,088	-
Net pension liability	(91,587)	-
Deferred inflows of resources	95,672	-
Total adjustments	<u>502,604</u>	<u>182,243</u>
Net cash provided (used) by operating activities	<u>\$ 3,585,456</u>	<u>\$ (154,023)</u>
<b>Reconciliation of Cash and Cash Equivalents on the Statement of Net Position to the Statement of Cash Flows:</b>		
Cash and cash equivalents	\$ 1,127,951	\$ 109,215
Restricted assets - cash and cash equivalents	412,158	-
Total cash and cash equivalents - ending	<u>\$ 1,540,109</u>	<u>\$ 109,215</u>

*See accompanying notes to the basic financial statements.*

**THE CITY OF VERNON, TEXAS**  
**STATEMENT OF ASSETS AND LIABILITIES**  
**FIDUCIARY FUNDS**  
**SEPTEMBER 30, 2015**

	<u>Agency Funds</u>
<b>Assets</b>	
Cash and cash equivalents	\$ 47,998
<b>Total assets</b>	<u>\$ 47,998</u>
<b>Liabilities</b>	
Payable to others	\$ 47,998
<b>Total liabilities</b>	<u>\$ 47,998</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, 2015**

	Budgeted Amounts		Actual	Variance With
	Original	Final		Final Budget - Positive (Negative)
<b>Revenues</b>				
Property taxes	\$ 1,456,228	\$ 1,455,304	\$ 1,449,439	\$ (5,865)
Franchise fees	645,000	657,767	672,138	14,371
Sales taxes	1,250,000	1,250,309	1,192,938	(57,371)
Other taxes	3,000	4,604	4,604	-
Licenses and permits	12,300	14,262	9,649	(4,613)
Cemetery income	61,000	59,750	58,348	(1,402)
Contracts	142,840	158,722	165,178	6,456
Swimming pool	71,200	79,782	79,781	(1)
Ambulance service	582,000	658,679	646,561	(12,118)
Administrative charges to other funds	899,571	281,405	281,405	-
Fines and fees	156,900	97,853	97,863	10
Grants and donations	12,000	1,500	126,992	125,492
Investment earnings	3,330	3,370	3,622	252
Other revenues	39,700	44,541	58,238	13,697
<b>Total revenues</b>	<u>5,335,069</u>	<u>4,767,848</u>	<u>4,846,756</u>	<u>78,908</u>
<b>Expenditures</b>				
General government	808,277	782,181	773,415	8,766
Public safety	3,524,274	3,378,074	3,322,260	55,814
Public works	728,232	547,607	518,649	28,958
Cemetery and parks	456,722	469,006	448,738	20,268
Subsidies, donations and other	326,741	438,229	440,905	(2,676)
Capital outlay	30,000	20,000	11,748	8,252
Debt service:				
Principal	234,642	326,570	293,783	32,787
Interest charges	32,592	105,545	99,767	5,778
<b>Total expenditures</b>	<u>6,141,480</u>	<u>6,067,212</u>	<u>5,909,265</u>	<u>157,947</u>
<b>Excess of revenues under expenditures</b>	<u>(806,411)</u>	<u>(1,299,364)</u>	<u>(1,062,509)</u>	<u>236,855</u>
<b>Other Financing Sources (Uses)</b>				
Proceeds from the sale of capital assets	18,000	53,853	-	(53,853)
Transfers in	960,062	1,438,271	1,260,470	(177,801)
Transfers out	-	(53,518)	(53,518)	-
<b>Total other financing sources (uses)</b>	<u>978,062</u>	<u>1,438,606</u>	<u>1,206,952</u>	<u>(231,654)</u>
<b>Net change in fund balance</b>	171,651	139,242	144,443	5,201
<b>Fund balances - beginning</b>	<u>393,936</u>	<u>393,936</u>	<u>393,936</u>	<u>-</u>
<b>Fund balances - ending</b>	<u>\$ 565,587</u>	<u>\$ 533,178</u>	<u>\$ 538,379</u>	<u>\$ 5,201</u>

*See accompanying notes to the basic financial statements.*

**THE CITY OF VERNON, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2015**

**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, 2015**

**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, 2015**

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

The City reports the following major governmental funds:

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

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

The City reports the following major enterprise fund:

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

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

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

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

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

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

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

**THE CITY OF VERNON, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)**  
**SEPTEMBER 30, 2015**

**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, 2015**

**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**

Deferred outflows of resources refers to the consumption of net position that is applicable to a future reporting period. Deferred outflows of resources has a positive effect on net position, similar to assets. Notwithstanding the similarities, Concepts Statement 5 clearly establishes that deferred outflows of resources are not assets.

**THE CITY OF VERNON, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)**  
**SEPTEMBER 30, 2015**

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

Deferred inflows of resources refers to the acquisition of net position that is applicable to a future reporting period. Deferred inflows of resources has a negative effect on net position, similar to liabilities. Notwithstanding the similarities, Concepts Statement 5 clearly establishes that deferred inflows of resources are not liabilities.

**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).

**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 OF VERNON, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)**  
**SEPTEMBER 30, 2015**

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

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

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

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

**9. Transactions Between Funds**

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

**10. Risk Management**

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

**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.

**THE CITY OF VERNON, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)**  
**SEPTEMBER 30, 2015**

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

**12. Pension Plan**

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

**13. New Accounting Standards Adopted**

The City adopted five new statements of financial accounting standards issued by the GASB. Two of these statements had a material effect on the City's financial statements: GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*.

Statement No. 68 establishes standards of accounting and financial reporting, but not funding or budgetary standards, for defined benefit pensions and defined contribution pensions provided to the employees of state and local government employers through pension plans that are administered through trusts or equivalent arrangements. Statement No. 68 replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Government Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans within the scope of the Statement.

The requirements of Statement No. 68 apply to the financial statements of all state and local governmental employers whose employees are provided with pensions through pension plans that are administered through trusts or equivalent arrangements as described above, and to the financial statements of state and local governmental non-employer contributing entities that have a legal obligation to make contributions directly to such pension plans. Statement No. 68 establishes standards for measuring and recognizing assets, liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures related to pensions. Note disclosure and Required Supplementary Information requirements about pensions are also addressed. For defined benefit pension plans, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

The adoption of Statement No. 68 has no impact on the City's governmental fund financial statements, which continue to report expenditures in the contribution amount determined legislatively for the TMRS plan. The calculation of pension contributions is unaffected by the change. However, the adoption has resulted in the restatement of the City's beginning net position for the fiscal year 2014 government-wide and proprietary fund financial statements to reflect the reporting of net pension liability, deferred outflows of resources, and deferred inflows of resources for its qualified pension plan and the recognition of pension expense in accordance with the provisions of Statement No. 68.

**THE CITY OF VERNON, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)**  
**SEPTEMBER 30, 2015**

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

Statement No. 71 amends Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Since the measurement date of the pension plan was different than the City's year-end, the effects from the City's reported contributions to the plan subsequent to the respective measurement date of the plan is an increase in deferred outflows of resources and a decrease in net position.

**2. COMPLIANCE AND ACCOUNTABILITY**

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

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

- For the year ended September 30, 2015, the City overexpended the General Fund in one functional area (see Exhibit A-11). The City will be more diligent in monitoring its actual expenditures compared to the City's adopted budget in future years.

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

As of September 30, 2015, there were no funds with a deficit fund balance or deficit net position, except for the Grant Fund, which is included in the Other Governmental Fund caption, and Workers Compensation Fund, which is part of the Internal Service Fund. The Grant Fund had a deficit fund balance of \$1,787 and the Workers Compensation Fund had a deficit net position of \$220,956 at September 30, 2015. They will be eliminated with transfers from other funds in 2015-16.

**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, 2015, the carrying amount of the City's deposits (cash and interest-bearing savings accounts included in temporary investments) was \$5,305,826 and the bank balance was \$5,341,475, including fiduciary accounts. The City's cash deposits at September 30, 2015, and during the year ended September 30, 2015, 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, 2015, the carrying amount of the Corporation's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$544,392 and the bank balance was \$556,025. The Corporation's cash deposits at September 30, 2015, and during the year ended September 30, 2015, were entirely covered by FDIC insurance.

**THE CITY OF VERNON, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)**  
**SEPTEMBER 30, 2015**

**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, 2015 are shown below and are included in the Cash and cash equivalents caption on Exhibit A-1:

<u>Investment or Investment Type</u>	<u>Weighted Maturity (Days)</u>	<u>Fair Value</u>
Money market and savings accounts	1	<u>\$2,847,381</u>

The BDC's investments at September 30, 2015 are shown below:

<u>Investment or Investment Type</u>	<u>Weighted Maturity (Days)</u>	<u>Fair Value</u>
Money market accounts	1	<u>\$399,144</u>

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

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

**1. Credit Risk**

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

**THE CITY OF VERNON, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)**  
**SEPTEMBER 30, 2015**

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

**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.

**4. RECEIVABLES**

Receivables and related allowances for uncollectibles consisted of the following items on September 30, 2015:

**THE CITY OF VERNON, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)**  
**SEPTEMBER 30, 2015**

**4. RECEIVABLES (CONT'D.)**

	<u>Gross</u> <u>Receivable</u>	<u>Allowance</u>	<u>Net</u> <u>Receivable</u>
<b>General Fund:</b>			
Ambulance	\$942,168	\$536,570	\$405,598
Property taxes	162,732	57,982	104,750
Sales taxes	312,931	-	312,931
Franchise fees	61,815	-	61,815
Other	4,767	-	4,767
<b>Other Governmental Funds:</b>			
Hotel occupancy taxes	25,465	-	25,465
Grants	30,764	-	30,764
<b>Utility Fund:</b>			
Customers	782,562	140,465	642,097
Property taxes	2,238	2,226	12

The City expects to collect substantially all of the net receivables within one year, except for ambulance fees and property taxes. The City anticipates collecting \$250,000 of the ambulance fees and \$32,000 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, 2015 was as follows:

**Governmental activities:**

	<u>Beginning</u> <u>Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u> <u>Balances</u>
<b>Capital assets not being depreciated:</b>				
Land	\$ 981,029	\$ -	\$ -	\$ 981,029
Construction in progress	<u>12,972</u>	<u>-</u>	<u>12,972</u>	<u>-</u>
Total capital assets not being depreciated	<u>994,001</u>	<u>-</u>	<u>12,972</u>	<u>981,029</u>
<b>Capital assets being depreciated:</b>				
Buildings and improvements	2,274,550	-	-	2,274,550
Infrastructure	2,230,501	582,147	-	2,812,648
Equipment, furniture, fixtures, etc.	1,938,984	37,304	28,100	1,948,188
Vehicles	<u>2,534,531</u>	<u>-</u>	<u>-</u>	<u>2,534,531</u>
Total capital assets being depreciated	<u>8,978,566</u>	<u>619,451</u>	<u>28,100</u>	<u>9,569,917</u>
<b>Less accumulated depreciation for:</b>				
Buildings and improvements	733,721	53,724	-	787,445
Infrastructure	111,477	46,923	-	158,400
Equipment, furniture, fixtures, etc.	1,143,514	149,607	25,757	1,267,364
Vehicles	<u>1,537,372</u>	<u>142,845</u>	<u>-</u>	<u>1,680,217</u>
Total accumulated depreciation	<u>3,526,084</u>	<u>393,099</u>	<u>25,757</u>	<u>3,893,426</u>
Total capital assets being depreciated, net	<u>5,452,482</u>	<u>226,352</u>	<u>2,343</u>	<u>5,676,491</u>
<b>Governmental activities capital assets, net</b>	<b><u>\$6,446,483</u></b>	<b><u>\$226,352</u></b>	<b><u>\$ 15,315</u></b>	<b><u>\$6,657,520</u></b>

**THE CITY OF VERNON, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)**  
**SEPTEMBER 30, 2015**

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

Depreciation expense was charged to departments as follows:

General Government	\$ 19,639
Public Safety	253,123
Public Works	74,933
Cemetery and Parks	<u>45,404</u>
	<u><b>\$393,099</b></u>

Business-type activities:

	Beginning Balances	Increases	Decreases	Ending Balances
<b>Capital assets not being depreciated:</b>				
Land	\$ 721,690	\$ -	\$ -	\$ 721,690
<b>Capital assets being depreciated:</b>				
Buildings and improvements	28,189,696	-	-	28,189,696
Equipment, furniture, fixtures, etc.	1,261,046	8,639	-	1,269,685
Vehicles	<u>316,496</u>	<u>-</u>	<u>-</u>	<u>316,496</u>
Total capital assets being depreciated	<u>29,767,238</u>	<u>8,639</u>	<u>-</u>	<u>29,775,877</u>
Less accumulated depreciation for:				
Buildings and improvements	10,117,852	629,544	-	10,747,396
Equipment, furniture, fixtures, etc.	920,033	54,097	-	974,130
Vehicles	<u>273,862</u>	<u>19,695</u>	<u>-</u>	<u>293,557</u>
Total accumulated depreciation	<u>11,311,747</u>	<u>703,336</u>	<u>-</u>	<u>12,015,083</u>
Total capital assets being depreciated, net	<u>18,455,491</u>	<u>(694,697)</u>	<u>-</u>	<u>17,760,794</u>
Business-type activities capital assets, net	<u><b>\$19,177,181</b></u>	<u><b>(\$694,697)</b></u>	<u><b>\$ -</b></u>	<u><b>\$18,482,484</b></u>

Depreciation expense was charged to departments as follows:

Business-type activities:	
Water	\$424,919
Sewer	275,886
Sanitation	<u>2,531</u>
	<u><b>\$703,336</b></u>

**THE CITY OF VERNON, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)**  
**SEPTEMBER 30, 2015**

**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)	11,244	-	-	11,244
Total capital assets not being depreciated	<u>110,336</u>	<u>-</u>	<u>-</u>	<u>110,336</u>
Capital assets being depreciated:				
Buildings and improvements	585,149	-	-	585,149
Equipment, furniture, fixtures, etc.	15,338	-	-	15,338
Total capital assets being depreciated	<u>600,487</u>	<u>-</u>	<u>-</u>	<u>600,487</u>
Less accumulated depreciation for:				
Buildings and improvements	118,948	23,956	-	142,904
Equipment, furniture, fixtures, etc.	12,698	1,288	-	13,986
Total accumulated depreciation	<u>131,646</u>	<u>25,244</u>	<u>-</u>	<u>156,890</u>
Total capital assets being depreciated, net	<u>468,841</u>	<u>( 25,244)</u>	<u>-</u>	<u>443,597</u>
BDC capital assets, net	<u>\$579,177</u>	<u>(\$25,244)</u>	<u>\$ -</u>	<u>\$553,933</u>

**6. INTERFUND BALANCES AND ACTIVITY**

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

Balances due to and due from other funds at September 30, 2015 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	\$37,622	Short-term borrowings
General Fund	Enterprise Fund	4,228	Short-term borrowings
Other Governmental Funds	General Fund	19,730	Short-term borrowings
Other Governmental Funds	Enterprise Fund	692	Short-term borrowings
Enterprise Fund	General Fund	<u>3,672</u>	Short-term borrowings
	Total	<u>\$65,944</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, 2015**

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

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

Transfers to and from other funds at September 30, 2015 consisted of the following:

<u>Transfers To</u>	<u>Transfers From</u>	<u>Amount</u>	<u>Reason</u>
General Fund	Electric Trust Principal	\$ 12,726	Interest transfer
General Fund	Other Governmental Funds	10,000	Main Street project
General Fund	Other Governmental Funds	35,969	Aquatics center donations
General Fund	Enterprise Fund	1,201,775	Payment in lieu of taxes
Other Governmental Funds	General Fund	43,382	Grant expenditures
Other Governmental Funds	Enterprise Fund	3,082	Grant expenditures
Enterprise Fund	General Fund	<u>10,136</u>	Payment in lieu of taxes
	Total	<u>\$1,317,070</u>	

**C. Long-term Borrowing**

Long-term borrowing consists of the following:

The Utility Fund has a note payable to the Employee Benefit Trust Fund, which is part of the City's Internal Service Fund. The note is due in monthly payments of \$8,943 of principal and interest at 2.50% per annum beginning October 31, 2015 through October 31, 2025. The note is unsecured.	\$948,667
Related accrued interest at September 30, 2015	<u>11,707</u>
Total interfund long-term borrowings at September 30, 2015	<u>\$960,374</u>

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

<u>Year Ended September 30.</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 78,004	\$ 29,313	\$ 107,317
2017	86,537	20,780	107,317
2018	88,726	18,591	107,317
2019	90,970	16,347	107,317
2020	93,270	14,047	107,317
2021-2025	502,945	33,639	536,584
2026	<u>8,215</u>	<u>17</u>	<u>8,232</u>
Totals	<u>\$948,667</u>	<u>\$132,734</u>	<u>\$1,081,401</u>

This interfund borrowing is reported in the fund level financial statements as a note receivable and accrued interest income in the Internal Service Fund and as long-term debt and accrued interest payable in the Utility Fund. However, it is netted into the internal balance captions in the government-wide Statement of Net Position at September 30, 2015.

**THE CITY OF VERNON, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)**  
**SEPTEMBER 30, 2015**

**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, 2015, are as follows:

	<u>Beginning</u> <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u> <u>Balance</u>	<u>Amount</u> <u>Due Within</u> <u>One Year</u>
<b><u>Governmental Activities:</u></b>					
Certificates of obligation	\$1,225,000	\$ -	\$ 50,000	\$1,175,000	\$ 55,000
Capital leases	822,116	-	203,445	618,671	158,105
Notes payable	587,311	-	40,339	546,972	41,982
Compensated absences *	<u>291,938</u>	<u>124,091</u>	<u>158,989</u>	<u>257,040</u>	<u>206,403</u>
Total governmental activities	<u>\$2,926,365</u>	<u>\$124,091</u>	<u>\$ 452,773</u>	<u>\$2,597,683</u>	<u>\$ 461,490</u>
<b><u>Business-type Activities:</u></b>					
Revenue bonds	\$7,505,000	\$ -	\$ 965,000	\$6,540,000	\$ 995,000
Premium on revenue bonds	138,314	-	6,429	131,885	-
Capital leases	41,927	-	25,009	16,918	8,370
Notes payable	252,450	-	35,638	216,812	176,073
Compensated absences *	<u>76,918</u>	<u>41,979</u>	<u>39,891</u>	<u>79,006</u>	<u>48,222</u>
Total business-type activities	<u>\$8,014,609</u>	<u>\$ 41,979</u>	<u>\$1,071,967</u>	<u>\$6,984,621</u>	<u>\$1,227,665</u>
<b><u>Business Development Corporation</u></b>					
Notes payable	\$1,888,583	\$ -	\$ 141,690	\$1,746,893	\$ 144,589
Capital lease	<u>866</u>	<u>-</u>	<u>866</u>	<u>-</u>	<u>-</u>
Total BDC	<u>\$1,889,449</u>	<u>\$ -</u>	<u>\$ 142,556</u>	<u>\$1,746,893</u>	<u>\$ 144,589</u>

\* - Other long-term liabilities

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

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

**B. Outstanding Bonds**

At September 30, 2015, the City had the following bonds outstanding:

**Governmental Activities:**

Combination Tax and Revenue Certificates of Obligation, Series 2005  
due through 2030 with interest rates ranging from 3.75% to 6.75% \$1,175,000

**THE CITY OF VERNON, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)**  
**SEPTEMBER 30, 2015**

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

Business-type Activities:

General Obligation Refunding Bonds, Series 2004 due through 2016 with interest rates from 3.50% to 4.25%	470,000
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%	3,035,000
General Obligation Refunding Bonds, Series 2010 due through 2020 with interest rates from 2.00% to 3.00%	1,615,000
General Obligation Refunding Bonds, Series 2012 due through 2023 with interest rates from 2.00% to 3.00%	<u>1,420,000</u>
Total business-type activities	<u>6,540,000</u>
Total all bonds	<u>\$7,715,000</u>

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

Debt service requirements on long-term bonds at September 30, 2015 are as follows:

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 55,000	\$ 48,315	\$ 103,315
2017	55,000	46,253	101,253
2018	60,000	44,021	104,021
2019	60,000	41,621	101,621
2020	65,000	39,105	104,105
2021-2025	380,000	150,878	530,878
2026-2030	<u>500,000</u>	<u>56,734</u>	<u>556,734</u>
Totals	<u>\$1,175,000</u>	<u>\$426,927</u>	<u>\$1,601,927</u>

<u>Year Ending September 30,</u>	<u>Business-type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 995,000	\$ 258,000	\$1,253,000
2017	610,000	222,069	832,069
2018	630,000	203,975	833,975
2019	640,000	185,350	825,350
2020	405,000	169,038	574,038
2021-2025	1,225,000	672,108	1,897,108
2026-2030	775,000	457,464	1,232,464
2031-2035	1,015,000	213,264	1,228,264
2036	<u>245,000</u>	<u>6,738</u>	<u>251,738</u>
Totals	<u>\$6,540,000</u>	<u>\$2,388,006</u>	<u>\$8,928,006</u>

**THE CITY OF VERNON, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)**  
**SEPTEMBER 30, 2015**

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

**D. Capital Leases**

Commitments under capitalized lease agreements for facilities and equipment provide for minimum future lease payments as of September 30, 2015 as follows:

<u>Year Ending September 30.</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>
2016	\$180,078	\$ 8,729
2017	151,306	8,729
2018	40,361	-
2019	40,361	-
2020	40,361	-
2021-2025	204,167	-
2026	<u>40,952</u>	<u>-</u>
Total minimum lease payments	697,586	17,458
Less amount representing interest	( 78,915)	( 540)
Present value of minimum lease payments	<u>\$618,671</u>	<u>\$ 16,918</u>

The effective interest rates on capital leases are 2.12% to 4.75%.

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

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Machinery and equipment	\$337,669	\$ -
Vehicles	980,385	48,398
Less accumulated depreciation	( 497,857)	( 37,911)
Net	<u>\$820,197</u>	<u>\$10,487</u>

**E. Notes Payable**

The City has notes payable at September 30, 2015 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 \$3,201 plus interest at 4.00% per annum through February 2017 when the balance of the principal and accrued interest is due. The note is unsecured.

\$454,513

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

92,459

Total governmental activities

546,972

**THE CITY OF VERNON, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)**  
**SEPTEMBER 30, 2015**

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

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. 22,870

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. 160,000

Note payable to the Bank of the West to finance various equipment purchases. The note is due in monthly payments of \$795 of principal and interest at 2.74% per annum through July 1, 2019. The note is secured by fire SCBA gear and computer software and accessories. 33,942

Total business-type activities 216,812

Total all notes payable \$763,784

The debt service requirements on the notes payable at September 30, 2015 are as follows:

<u>Year Ending September 30.</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 41,982	\$20,265	\$ 62,247
2017	460,535	9,018	469,553
2018	25,023	971	25,994
2019	<u>19,432</u>	<u>272</u>	<u>19,704</u>
Totals	<u>\$546,972</u>	<u>\$30,526</u>	<u>\$577,498</u>

<u>Year Ending September 30.</u>	<u>Business-type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$176,073	\$ 7,560	\$183,633
2017	16,583	951	17,534
2018	17,084	464	17,548
2019	<u>7,072</u>	<u>82</u>	<u>7,154</u>
Totals	<u>\$216,812</u>	<u>\$ 9,057</u>	<u>\$225,869</u>

**THE CITY OF VERNON, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)**  
**SEPTEMBER 30, 2015**

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

**F. Combined Debt Service Requirements**

Debt service requirements on all long-term debt at September 30, 2015 are as follows:

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 255,087	\$ 90,553	\$ 345,640
2017	654,935	67,177	722,112
2018	117,243	53,133	170,376
2019	112,469	49,217	161,686
2020	98,874	45,592	144,466
2021-2025	562,292	172,753	735,045
2026-2030	539,743	57,943	597,686
Totals	<u>\$2,340,643</u>	<u>\$536,368</u>	<u>\$2,877,011</u>

<u>Year Ending September 30,</u>	<u>Business-type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$1,179,443	\$ 265,919	\$1,445,362
2017	635,131	223,201	858,332
2018	647,084	204,439	851,523
2019	647,072	185,432	832,504
2020	405,000	169,038	574,038
2021-2025	1,225,000	672,108	1,897,108
2026-2030	775,000	457,464	1,232,464
2031-2035	1,015,000	213,264	1,228,264
2036	245,000	6,738	251,738
Totals	<u>\$6,773,730</u>	<u>\$2,397,603</u>	<u>\$9,171,333</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, 2015 as follows:

The note payable to the Texas Leverage Fund (#1) is payable in monthly installments of \$6,215 including interest at 3.25% per annum and is secured by sales tax receipts collected by BDC. The note matures in January 2025. \$ 608,823

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. 1,138,070

Total \$1,746,893

**THE CITY OF VERNON, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)**  
**SEPTEMBER 30, 2015**

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

The debt service requirements on the notes payable at September 30, 2015 are as follows:

<u>Year Ending September 30.</u>	<u>BDC Notes Payable</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 144,589	\$ 56,383	\$ 200,972
2017	151,193	49,778	200,971
2018	156,181	44,791	200,972
2019	161,333	39,638	200,971
2020	166,655	34,316	200,971
2021-2025	881,919	85,650	967,569
2026	<u>85,023</u>	<u>1,271</u>	<u>86,294</u>
Totals	<u>\$1,746,893</u>	<u>\$311,827</u>	<u>\$2,058,720</u>

**8. NET POSITION AND FUND BALANCES**

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

Net Position:	<u>Primary Government</u>			<u>Component Unit</u>
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>	
Restricted for:				
Debt service	\$ -	\$262,689	\$ 262,689	\$ -
Public improvements:				
Expendable	35,354	-	35,354	-
Nonexpendable	2,847,381	-	2,847,381	-
Perpetual care:				
Nonexpendable	217,229	-	217,229	-
Municipal court building security	21,207	-	21,207	-
Municipal court technology	20,524	-	20,524	-
Public, education, and government access	54,929	-	54,929	-
Grants	( 1,787)	-	( 1,787)	-
Public safety	18,838	-	18,838	-
Parks and aquatics center	66,261	-	66,261	-
Christmas decorations	8,189	-	8,189	-
Tourism	<u>283,997</u>	<u>-</u>	<u>283,997</u>	<u>-</u>
Total restricted net position	<u>\$3,572,122</u>	<u>\$262,689</u>	<u>\$3,834,811</u>	<u>\$ -</u>

**THE CITY OF VERNON, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)**  
**SEPTEMBER 30, 2015**

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

Fund Balances:	Governmental Funds			
	General	Electric Trust Principal	Other Governmental	Total
Restricted for:				
Public improvements	\$ 35,354	\$2,847,381	\$ -	\$2,882,735
Municipal court building security	21,207	-	-	21,207
Municipal court technology	20,524	-	-	20,524
Public, education, and government access	54,929	-	-	54,929
Grants	-	-	( 1,787)	( 1,787)
Public safety	-	-	18,838	18,838
Parks and aquatics center	-	-	66,261	66,261
Christmas decorations	-	-	8,189	8,189
Tourism	-	-	283,997	283,997
Perpetual care	-	-	217,229	217,229
	<u>\$ 132,014</u>	<u>\$2,847,381</u>	<u>\$ 592,727</u>	<u>\$3,572,122</u>
Total restricted fund balance				
Committed for:				
Main Street	<u>\$ 93,425</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 93,425</u>

**9. SELF-FUNDED WORKERS COMPENSATION**

During the fiscal year ended September 30, 1992, the City began a self-insurance program for workers compensation. The Workers Compensation Fund, an internal service fund, was established for this program. Under 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, 2015, the Workers Compensation Fund expended \$268,775 for claims, stop-loss insurance premiums, and administrative costs. During the same period, the Fund did not receive any charges and fees from the General Fund, the Enterprise Fund or the BDC. Settled claims have not exceeded commercial coverage to date.

When payments are received from the General and Enterprise Funds and the BDC, they are based on estimates of the amounts needed to pay current and prior claims and other expenses, and to establish a reserve for catastrophic losses. The estimates are based on the City's historical cost data. As of September 30, 2015, the reserve was (\$220,956). The claims payable of \$227,992 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, 2014 and 2015 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, 2014	<u>\$15,319</u>	<u>\$ 3,290</u>	<u>\$13,216</u>	<u>\$ 5,393</u>
FYE September 30, 2015	<u>\$ 5,393</u>	<u>\$268,775</u>	<u>\$46,176</u>	<u>\$227,992</u>

**THE CITY OF VERNON, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)**  
**SEPTEMBER 30, 2015**

**10. DEFINED BENEFIT PENSION PLAN**

**A. Plan Description**

The City participates as one of 860 plans in the nontraditional, joint contributory, hybrid defined benefit plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at [www.tmr.com](http://www.tmr.com).

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

**B. Benefits Provided**

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

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

*Employees Covered by Benefit Terms*

At the December 31, 2014 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	68
Inactive employees entitled to but not yet receiving benefits	55
Active employees	98

**C. Contributions**

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

Employees of the City were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City were 18.19% and 18.67% in calendar years 2014 and 2015, respectively. The City's contributions to TMRS for the year ended September 30, 2015, were \$712,711, and were equal to the required contributions.

**THE CITY OF VERNON, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)**  
**SEPTEMBER 30, 2015**

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

**D. Net Pension Liability**

The City's Net Position Liability (NPL) was measured as of December 31, 2014, and the Total Pension Liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

*Actuarial Assumptions*

The Total Pension Liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions:

Inflation	3.0% per year
Overall payroll growth	3.0% per year
Investment rate of return	7.0%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table, with male rates multiplied by 109% and female rates multiplied by 103%. Based on the size of the City, rates are multiplied by a factor of 95.0%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Disabled Retiree Mortality Table is used, with slight adjustments.

Actuarial assumptions used in the December 31, 2014, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period January 1, 2006 through December 31, 2009, first used in the December 31, 2010 valuation. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation.

The long-term expected rate of return on pension plan investments is 7.0%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

**THE CITY OF VERNON, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)**  
**SEPTEMBER 30, 2015**

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return (Arithmetic)</u>
Domestic Equity	17.5%	4.80%
International Equity	17.5%	6.05%
Core Fixed Income	30.0%	1.50%
Non-Core Fixed Income	10.0%	3.50%
Real Return	5.0%	1.75%
Real Estate	10.0%	5.25%
Absolute Return	5.0%	4.25%
Private Equity	<u>5.0%</u>	8.50%
<b>Total</b>	<b><u>100.0%</u></b>	

*Discount Rate*

The discount rate used to measure the Total Pension Liability was 7.0%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

*Changes in Net Pension Liability / (Asset)*

	<u>Increase (Decrease)</u>		
	<u>Total Pension Liability</u> <u>(a)</u>	<u>Fiduciary Net Position</u> <u>(b)</u>	<u>Net Pension Liability / (Asset)</u> <u>(a) - (b)</u>
Balances as of December 31, 2013	\$22,171,455	\$16,430,966	\$5,740,489
Changes for the year:			
Service cost	628,498	-	628,498
Interest on total pension liability	1,529,732	-	1,529,732
Change of benefit terms	-	-	-
Difference between expected and actual experience	( 672,755)	-	( 672,755)
Change of assumptions	-	-	-
Contributions - employer	-	734,220	( 734,220)
Contributions - employee	-	286,327	( 286,327)
Net investment income	-	939,988	( 939,988)
Benefit payments, including refunds of employee contributions	( 1,264,777)	( 1,264,777)	-
Administrative expense	-	( 9,814)	9,814
Other changes	-	( 807)	807
<b>Balances as of December 31, 2014</b>	<b><u>\$22,392,153</u></b>	<b><u>\$17,116,103</u></b>	<b><u>\$5,276,050</u></b>

**THE CITY OF VERNON, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)**  
**SEPTEMBER 30, 2015**

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

*Sensitivity Analysis*

The following presents the net pension liability of the City, calculated using the discount rate of 7.0%, as well as what the City's net pension liability / (asset) would be if it were calculated using a discount rate that is 1 percentage point lower (6.0%) or 1 percentage point higher (8.0%) than the current rate.

	1% Decrease 6.0%	Current Discount Rate 7.0%	1% Increase 8.0%
Net pension liability	\$8,539,143	\$5,276,050	\$2,622,268

*Pension Plan Fiduciary Net Position*

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

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

For the year ended September 30, 2015, the City recognized pension expense of \$586,791.

At September 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$485,154
Net difference between projected and actual earnings	168,144	-
Contributions made subsequent to measurement date	<u>531,201</u>	<u>-</u>
Total	<u>\$699,345</u>	<u>\$485,154</u>

\$531,201 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended December 31:</u>	
2015	(\$145,565)
2016	( 145,565)
2017	( 67,916)
2018	<u>42,036</u>
Total	<u>(\$317,010)</u>

**THE CITY OF VERNON, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)**  
**SEPTEMBER 30, 2015**

**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 \$799,879 per year. The insurance provider pays amounts in excess of the aforementioned. Settled claims have not exceeded commercial insurance coverage as of September 30, 2015. Group life insurance premiums are also paid by the Employee Benefits Trust Fund. During the fiscal year ended September 30, 2015, \$926,396 was expended for health benefits, insurance premiums and administrative costs. Charges and fees for the same period amounted to \$816,973, including \$473,361 from the General Fund, \$126,968 from the Enterprise Fund, \$209,622 from employee payroll deductions, and \$7,022 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, 2015, the reserve was \$984,934.

The claims liability of \$77,620 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, 2014 and 2015 were:

	<u>Beginning of Year Liability</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claims and Expenses Paid</u>	<u>Balance at Year End</u>
FYE September 30, 2014	<u>\$16,220</u>	<u>\$1,007,937</u>	<u>\$966,565</u>	<u>\$ 57,592</u>
FYE September 30, 2015	<u>\$57,592</u>	<u>\$ 884,466</u>	<u>\$864,438</u>	<u>\$ 77,620</u>

**12. COMMITMENTS AND CONTINGENCIES**

A. Litigation

No reportable litigation was pending against the City at September 30, 2015.

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.

**THE CITY OF VERNON, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)**  
**SEPTEMBER 30, 2015**

**12. COMMITMENTS AND CONTINGENCIES (CONT'D.)**

**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**

In the current year the City implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment to GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*, as those statements are effective for fiscal years beginning on or after June 15, 2014. Implementation of this statement was made to improve accounting and financial reporting by the City for pensions provided by the TMRS as described in Note 6. Implementation required a prior period adjustment to beginning net position as of October 1, 2014. The prior period adjustment to reduce beginning unrestricted net position is composed of the following September 30, 2014 amounts:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Net pension liability	\$4,608,465	\$1,132,024	\$5,740,489
Deferred outflows of resources	( 453,771)	( 108,756)	( 562,527)
Prior period adjustment	<u>\$4,154,694</u>	<u>\$1,023,268</u>	<u>\$5,177,962</u>

Since pension liability data is not available for periods prior to September 30, 2014, the effect of the prior period adjustment on the change in net position for the fiscal year ended September 30, 2014, is not determinable.

**THE CITY OF VERNON, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)**  
**SEPTEMBER 30, 2015**

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

Furthermore, City management noted an error in the previously-reported net position of the Business-Type Activities and Enterprise Fund. The balances were overstated due to an error in accounts payable of \$23,676. Consequently, a prior period adjustment reducing the amounts previously-reported was made.

A summary of the effects of the prior period adjustments are as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Enterprise Fund</u>
Adjustment related to implementation of GASB 68 & 71	(\$4,154,694)	(\$1,023,268)	(\$1,023,268)
Adjustment related to the accounts payable error	-	( 23,676)	( 23,676)
Total prior period adjustments	<u>(\$4,154,694)</u>	<u>(\$1,046,944)</u>	<u>(\$1,046,944)</u>



RESEARCH REPORT

1. Title of the Report  
2. Author(s)  
3. Date of Publication

**REQUIRED SUPPLEMENTARY INFORMATION**

1. Abstract  
2. Introduction  
3. Methods  
4. Results  
5. Discussion  
6. Conclusion

7. References  
8. Acknowledgements  
9. Appendixes  
10. Tables  
11. Figures  
12. Glossary  
13. Index

## THE CITY OF VERNON, TEXAS

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

	2014
<b>Total Pension Liability</b>	
Service cost	\$ 628,498
Interest on total pension liability	1,529,732
Changes of benefit terms	-
Difference between expected and actual experience	(672,755)
Changes of assumptions	-
Benefit payments/refunds of contributions	(1,264,777)
Net change in total pension liability	220,698
Total pension liability, beginning	22,171,455
Total pension liability, ending (a)	\$22,392,153
<b>Fiduciary Net Pension</b>	
Contributions - employer	\$ 734,220
Contributions - employee	286,327
Net investment income	939,988
Benefit payments/refunds of contributions	(1,264,777)
Administrative expenses	(9,814)
Other	(807)
Net change in fiduciary net position	685,137
Fiduciary net pension, beginning	16,430,966
Fiduciary net pension, ending (b)	\$17,116,103
Net pension liability, ending = (a) - (b)	\$ 5,276,050
Fiduciary net position as a % of total pension liability	76.44%
Covered employee payroll	\$ 4,090,382
Net pension liability as a % of covered payroll	128.99%

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

## THE CITY OF VERNON, TEXAS

### REQUIRED SUPPLEMENTARY INFORMATION SCHEDULE OF CONTRIBUTIONS TEXAS MUNICIPAL RETIREMENT SYSTEM

	2015
Actuarial determined contribution	\$ 712,711
Contributions in relation to the actuarially determined contribution	(712,711)
Contribution deficiency	\$ -
Covered employee payroll	\$ 3,843,062
Contributions as a percentage of covered employee payroll	18.55%

**Valuation Date:**

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

**Methods and Assumptions Used to Determine Contribution Rates:**

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	22 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	3.0%
Salary Increases	3.50% to 12.00% including inflation
Investment Rate of Return	7.00%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2010 valuation pursuant to an experience study of the period 2005-2009
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB

**Other Information:**

There were no benefit changes during the year.

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

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

