

**THE CITY OF VERNON, TEXAS**

**ANNUAL FINANCIAL REPORT**

**FOR THE YEAR ENDED SEPTEMBER 30, 2020**



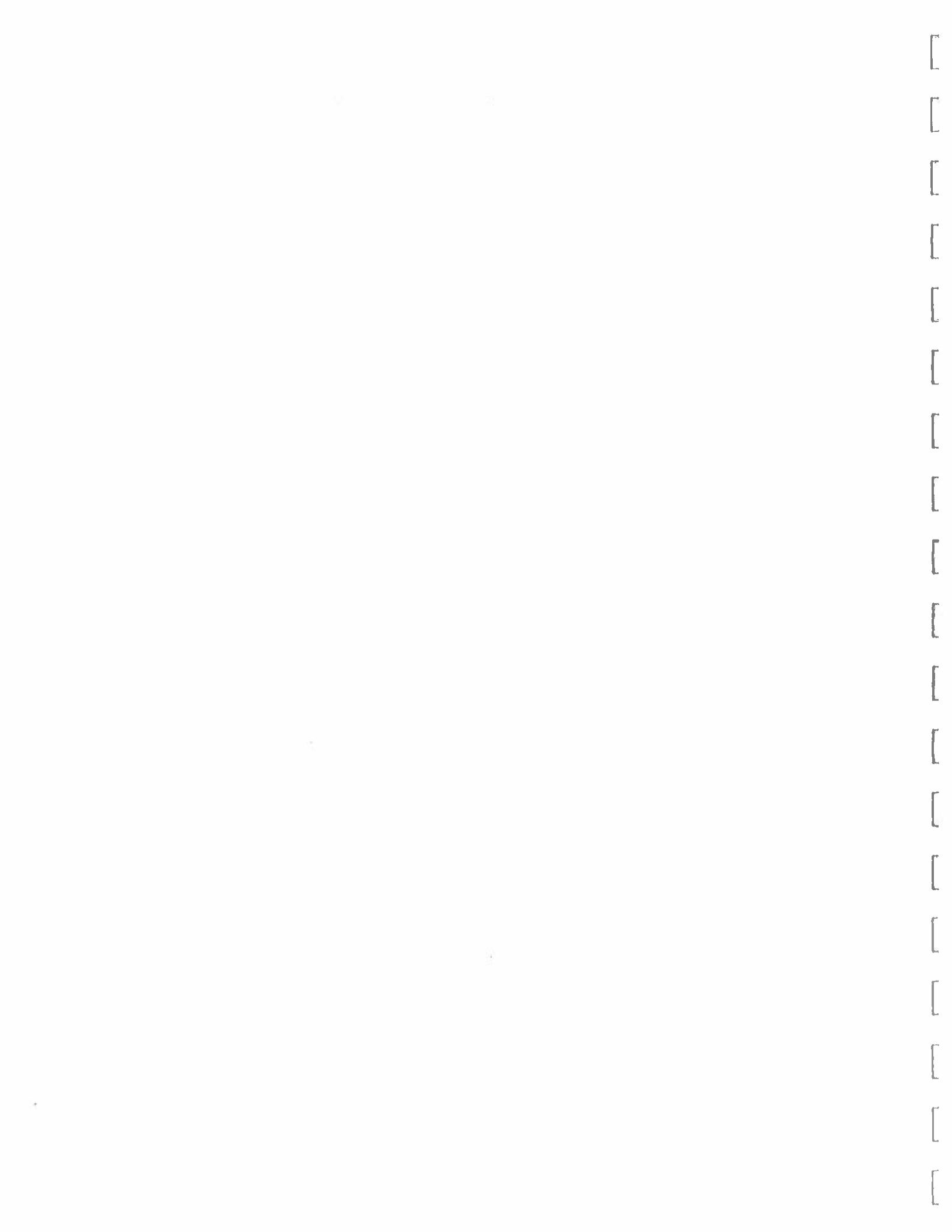
# THE CITY OF VERNON, TEXAS

## ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2020

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## ***FINANCIAL SECTION***





## EDGIN, PARKMAN, FLEMING & FLEMING, PC

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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, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

#### **Management's Responsibility for the Financial Statements**

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

#### **Auditor's Responsibility**

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

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

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

## **Opinions**

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Vernon, Texas as of September 30, 2020, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

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

*Edgin, Parkman, Fleming & Fleming, PC*

EDGIN, PARKMAN, FLEMING & FLEMING, PC

Wichita Falls, Texas  
March 31, 2021

# City of Vernon

1725 Wilbarger  
Vernon, Texas 76384-4741  
(940) 552-2581

## 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, 2020. Please read it in conjunction with the City's financial statements, which follow this section.

### FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$33,968,660 (net position). Of this amount, \$7,613,450 (unrestricted net position) may be used to meet the City's obligations.
- During the year, the City's total net position increased by \$2,828,783.
- The governmental funds reported a fund balance this year of \$8,175,771, which is an increase of \$1,218,820 in comparison with the prior year amount of \$6,956,951 or 17.52%. Of this total fund balance, \$3,550,959 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 \$3,550,959. \$4,624,812 of the total Governmental Funds fund balances are either restricted, committed or assigned.

### 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

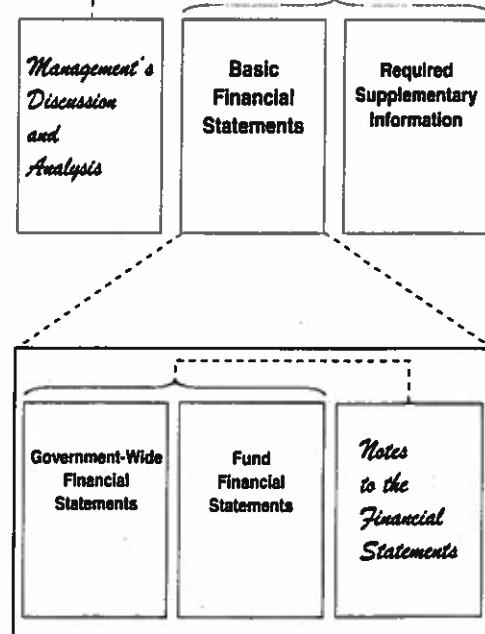


Figure A-2 summarizes the major features of the City's financial statements, including the portion of the City's government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each 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 City's government (except fiduciary funds) and the City's component units	The activities of the City that are not proprietary or fiduciary	Activities the City operates similar to private businesses - the water and sewer system
Required financial statements	<ul style="list-style-type: none"> <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 \$33,968,660 at September 30, 2020. (See Table A-1)

Table A-1  
City's Net Position

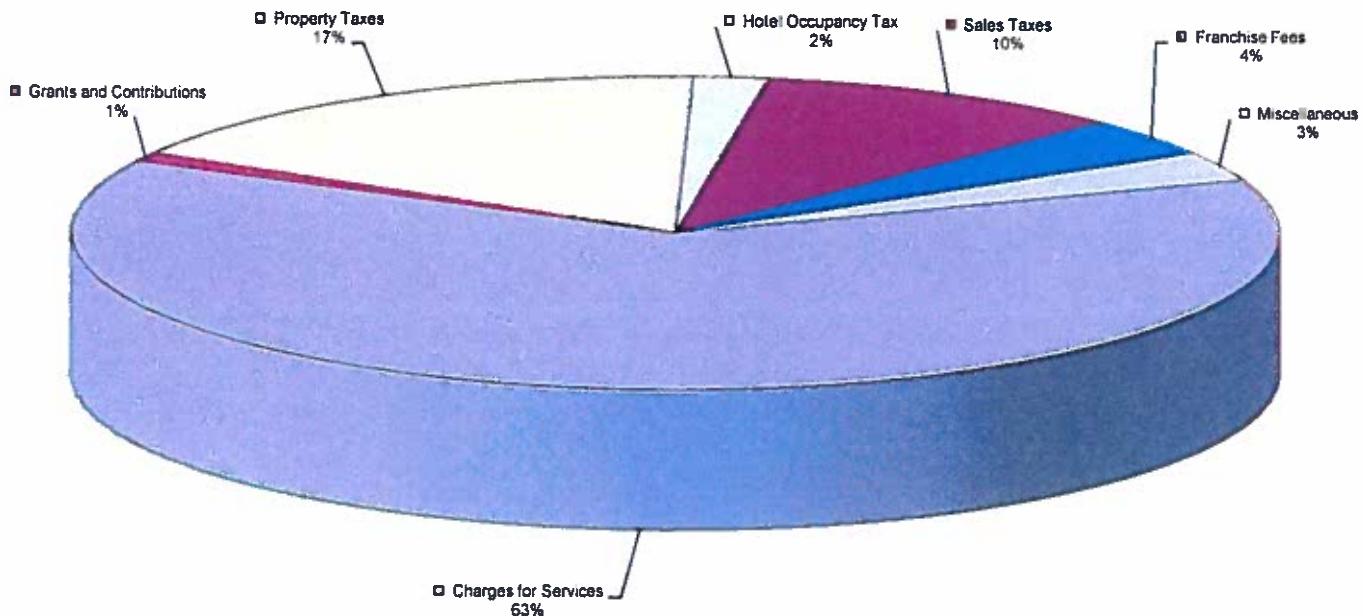
	Governmental		Business-type		Total	
	Activities	2020	Activities	2019	2020	2019
Current and other assets						
Capital assets, net	\$ 10,407,777	\$ 9,319,434	\$ 8,299,023	\$ 7,435,293	\$ 18,706,800	\$ 16,754,727
Total assets	5,962,971	6,122,529	17,864,608	17,580,465	23,827,579	23,702,994
Deferred outflows of resources						
Related to pension plan	280,797	1,065,772	71,453	278,601	352,250	1,345,373
Related to OPEB plan	53,618	16,427	13,212	4,828	66,830	-
Deferred loss on refunding debt	-	-	218,627	232,765	218,627	232,765
Total deferred outflows of resources	334,415	1,084,199	303,292	517,194	637,707	1,578,138
Current and other liabilities	661,545	752,200	904,618	963,552	1,566,163	1,715,752
Long-term liabilities	3,041,201	4,411,578	3,681,981	4,397,487	6,703,182	8,809,065
Total liabilities	3,702,746	5,163,778	4,568,599	5,361,039	8,269,345	10,524,817
Deferred inflows of resources						
Related to pension plan	721,510	287,362	177,792	75,286	899,302	362,648
OPEB plan related	27,904	25,176	6,875	6,596	34,779	31,772
Total deferred inflows of resources	749,414	312,538	184,667	81,882	934,081	394,420
Net position						
Net investment in capital assets	4,713,773	4,789,552	14,338,945	13,571,030	19,050,718	18,380,582
Restricted	4,539,191	4,326,590	2,765,301	2,204,608	7,304,492	6,531,198
Unrestricted	3,000,039	1,933,704	4,613,411	4,314,393	7,613,450	6,248,097
Total net position	\$ 12,253,003	\$ 11,049,846	\$ 21,715,657	\$ 20,090,031	\$ 33,968,660	\$ 31,139,877

The \$7,613,450 of unrestricted net position at September 30, 2020, represents resources available to fund the programs of the City next year, if sufficient resources are not derived from future resources. The restricted net position is required to be set aside for long-term debt, public improvements and various other activities.

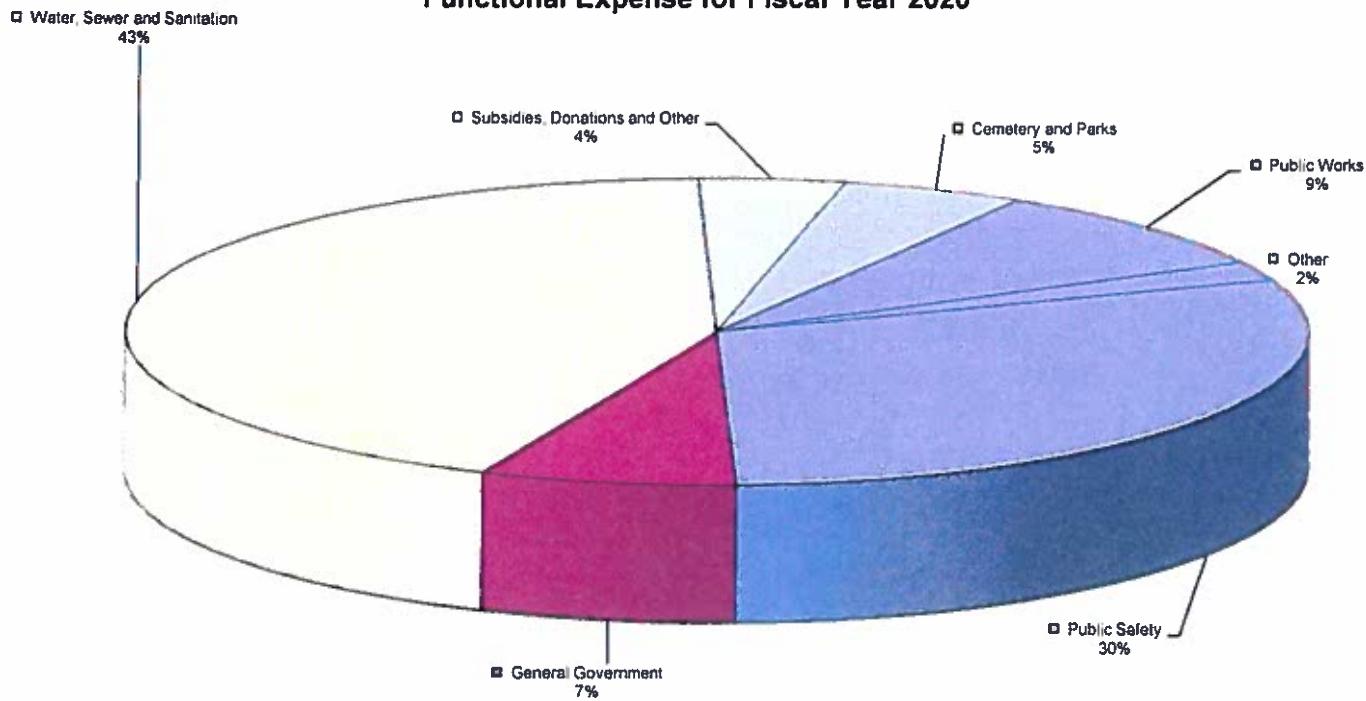
**Changes in net position.** The City's total revenues, both program and general, were \$14,436,093. A significant portion, 63%, of the City's revenue comes from charges for services. (See Figure A-3.) 1% comes from operating and capital grants and contributions, 10% comes from sales taxes, 17% from property taxes and 4% from franchise fees. Other minor categories combined make up 5% of the City's total revenues.

The total cost of all programs and services was \$11,607,310. 43% of these costs are for water, sewer and sanitation related expenses. The City's expenses cover a range of services, with 30% related to public safety, 9% for public works, 5% for cemetery, and other, 4% for subsidies, donations and other, and 7% general government. (See Figure A-4.)

**Figure A-3**  
**Source of Revenue for Fiscal Year 2020**



**Figure A-4**  
**Functional Expense for Fiscal Year 2020**



## 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	
	2020	2019	2020	2019	2020	2019
<b>Revenues</b>						
Program revenues						
Charges for services	\$ 1,265,159	\$ 1,323,726	\$ 7,877,350	\$ 8,147,321	\$ 9,142,509	\$ 9,471,047
Operating and capital grants	153,171	133,645	-	-	153,171	133,645
Capital grants and contributions	-	-	-	263,000	-	263,000
General revenues						
Property taxes	2,391,702	2,354,412	-	-	2,391,702	2,354,412
Sales taxes	1,371,645	1,294,346	-	-	1,371,645	1,294,346
Franchise fees	581,016	602,563	-	-	581,016	602,563
Other taxes	361,104	441,020	-	-	361,104	441,020
Investment earnings	114,401	221,797	93,578	178,703	207,979	400,500
Miscellaneous	185,422	142,485	41,545	53,959	226,967	196,444
<b>Total revenues</b>	<b>6,423,620</b>	<b>6,513,994</b>	<b>8,012,473</b>	<b>8,642,983</b>	<b>14,436,093</b>	<b>15,156,977</b>
<b>Expenses</b>						
General government	868,251	858,756	-	-	868,251	858,756
Public safety	3,445,471	3,478,187	-	-	3,445,471	3,478,187
Public works	1,008,095	1,092,736	-	-	1,008,095	1,092,736
Cemetery and parks	585,050	586,768	-	-	585,050	586,768
Subsidies, donations, and other	474,842	458,298	-	-	474,842	458,298
Christmas decorations	7,467	4,713	-	-	7,467	4,713
Civic and cultural	115,425	197,909	-	-	115,425	197,909
Economic development	89,895	98,104	-	-	89,895	98,104
Interest	34,289	36,085	-	-	34,289	36,085
Water, sewer and sanitation	-	-	4,978,525	4,930,195	4,978,525	4,930,195
<b>Total expenses</b>	<b>6,628,785</b>	<b>6,811,554</b>	<b>4,978,525</b>	<b>4,930,195</b>	<b>11,607,310</b>	<b>11,741,749</b>
<b>Transfers</b>	<b>1,408,322</b>	<b>1,216,118</b>	<b>(1,408,322)</b>	<b>(1,216,118)</b>	-	-
<b>Change in net position</b>	<b>1,203,157</b>	<b>918,558</b>	<b>1,625,626</b>	<b>2,496,670</b>	<b>2,828,783</b>	<b>3,415,228</b>
<b>Net position - beginning</b>	<b>11,049,846</b>	<b>10,131,288</b>	<b>20,090,031</b>	<b>17,593,381</b>	<b>31,139,877</b>	<b>27,724,649</b>
<b>Net position - ending</b>	<b>\$ 12,253,003</b>	<b>\$ 11,049,846</b>	<b>\$ 21,715,657</b>	<b>\$ 20,090,031</b>	<b>\$ 33,968,660</b>	<b>\$ 31,139,877</b>

The most significant fluctuation between years relates to the following:

- Charges for Services decreased by \$328,538, which is due to decreased usage by commercial users.
- Investment earnings decreased \$192,521 due to declining interest rates.
- Capital grants decreased \$263,000 due to the City not receiving any Capital Grants in 2020.
- Expenses decreased overall by \$134,439 partially due to a decrease in pension related benefits expense.

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 \$6,628,785; however, the amount that our taxpayers paid for these activities through property taxes was \$2,391,702.
- Some of the cost was paid by those who directly benefited from the programs through charges for services of \$1,265,159.

#### Net Cost of Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2020	2019	2020	2019
General government	\$ 868,251	\$ 858,756	\$ 577,710	\$ 692,352
Public safety	3,445,471	3,478,187	2,554,206	2,497,122
Public works	1,008,095	1,092,736	961,678	1,045,901
Cemetery and parks	585,050	586,768	423,255	350,668
Economic development	89,895	98,104	89,895	98,104
Subsidies, donations and other	474,842	458,296	452,533	437,294
Christmas decorations	7,467	4,713	1,464	(1,252)
Civic and cultural	115,425	197,909	115,425	197,909
Interest	34,289	36,085	34,289	36,085
Total	\$ 6,628,785	\$ 6,811,554	\$ 5,210,455	\$ 5,354,183

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

Revenues from governmental funds totaled \$6,541,067, an increase of \$62,113 or 1%. The larger increase was an increase in sales taxes of \$77,299 or 6%.

Expenditures from governmental funds totaled \$6,732,581, a decrease of \$148,166 or 2%. The largest decrease was in capital outlay, a decrease of \$197,992 or 49%. The second largest decrease was in civic and culture, which was a decrease of \$82,484 or 42%. Public safety increased \$94,609 or 3%. Transfers to the general fund increased by \$30,173 or 1.5%.

#### General Fund Budgetary Highlights

During the prior year, the City's cash flow greatly improved due to continued strong minimum utility rates, good hotel/motel tax receipts, good sales tax revenues and continued operational expenditure deferrals.

Property tax revenues increased slightly. Franchise tax revenue decreased slightly due to state regulation regarding the payment of franchise fees for multiple services provided on a single conduit. Sales tax increased slightly, mostly due to utility and windmill construction in the area and on-line sales. Water revenue decreased due to a decrease in activity from a large commercial customer. Interest income decreased dramatically due to the market.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At September 30, 2020, the City had invested in a broad range of capital assets totaling \$23,827,579, 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	
	2020	2019	2020	2019	2020	2019
Land	\$ 981,029	\$ 981,029	\$ 721,690	\$ 721,690	\$ 1,702,719	\$ 1,702,719
Construction in progress	-	-	100,605	435,457	100,605	435,457
Buildings and improvements	1,256,923	1,311,579	15,959,383	15,402,391	17,216,306	16,713,970
Infrastructure	2,365,368	2,423,136	-	-	2,365,368	2,423,136
Equipment, furniture, fixtures	517,760	520,613	1,013,297	972,683	1,531,057	1,493,296
Vehicles	841,891	886,172	69,633	48,244	911,524	934,416
<b>Total capital assets, net</b>	<b>\$5,962,971</b>	<b>\$6,122,529</b>	<b>\$ 17,864,608</b>	<b>\$ 17,580,465</b>	<b>\$ 23,827,579</b>	<b>\$ 23,702,994</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 2021, the City plans capital additions including:

#### GENERAL

Street Seal Coat and Repairs	\$ 390,000
Police Cars	85,000
Street Broom	55,000
Splash Pad	200,000
<b>Total</b>	<b>\$ 730,000</b>

#### ENTERPRISE

Bulk Water Purchases	\$ 65,000
Water Mains and Wells	149,000
Waste Water Pickup	39,500
Water Tank - Orbison Park	207,000
Water Booster Station	18,000
Concrete Ramp at Transfer Station	25,000
Waste Water Plant Rejuvenations	1,140,000
<b>Total</b>	<b>\$ 1,643,500</b>

### Long-term Obligations

At September 30, 2020, the City had \$5,263,982 in bonds, compensated absences, notes and leases outstanding as shown in Table A-5. More detailed information about the City's long-term obligations is presented in the notes to the financial statements.

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

**Table A-5**  
**Long-term Obligations**

	Governmental		Business-type			
	Activities	2020	Activities	2019	Total	2019
Certificates of obligation	\$ 1,027,163	\$ 1,077,068	\$ -	\$ -	\$ 1,027,163	\$ 1,077,068
Capital leases	222,035	255,909	-	-	222,035	255,909
Notes payable	-	-	59,975	79,974	59,975	79,974
Compensated absences	385,417	357,376	101,703	92,015	487,120	449,391
Revenue bonds	-	-	3,467,689	3,929,461	3,467,689	3,929,461
<b>Total</b>	<b>\$ 1,634,615</b>	<b>\$ 1,690,353</b>	<b>\$ 3,629,367</b>	<b>\$ 4,101,450</b>	<b>\$ 5,263,982</b>	<b>\$ 5,791,803</b>

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

#### Increases/Decreases in Revenue

In the General Fund, total 2021 budgeted revenues decreased by \$442,737 from 2020 actual revenues. The largest decrease was the sales tax which decreased \$296,645 or 22%. Ambulance fees decreased \$161,792 or 27%. Grant income decreased \$112,068 or 100%. Administrative charges increased \$10,477 or 4%. Property tax revenue budgeted for 2021 was materially the same amount as actual for 2020, with an increase of all property tax revenue of \$6,482 or less than 1%. The 2021 rate is \$.41818 per \$100 of taxable property value for Maintenance and Operation.

In the Debt Service Fund, the 2021 tax rate is .11604 per \$100 of taxable property value. The total amount of municipal debt secured by property taxes is \$492,800.

In the Enterprise Fund budget, 2021 revenues were decreased by \$214,295 or 3% from 2020 actual revenues. Water revenues were decreased \$199,801 or 5%.

#### Decreases/Increases in Expenditures

General Fund expenditures were increased by \$603,837 or 9% from the actual 2020 expenditures.

Debt Service Fund expenditures were budgeted for the same amount as 2020 actual expenditures.

In the Enterprise Fund, expenses were increased by \$779,775 or 10% from 2020 actual expenditures.

The adopted budget reports no change in the General Fund's fund balance and a decrease of \$1,378 in the Utility (Enterprise) Fund's net position for fiscal-year ending 2021.

### 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, 2020**

	<b>Primary Government</b>			<b>Component Unit</b>
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>	
<b>Assets</b>				
Cash and cash equivalents	\$ 8,805,322	\$ 7,651,670	\$ 16,456,992	\$ 1,822,308
Receivables:				
Due from primary government	-	-	-	117,745
Customers (net)	-	629,173	629,173	-
Ambulance (net)	263,500	-	263,500	-
Property taxes (net)	162,349	-	162,349	-
Sales taxes	350,307	-	350,307	-
Hotel occupancy taxes	51,989	-	51,989	-
Franchise fees	157,582	-	157,582	-
Other governments	35,454	-	35,454	-
Other	42,198	-	42,198	-
Internal balances	375,070	(375,070)	-	-
Other assets	48,877	450	49,327	-
Restricted assets:				
Cash and cash equivalents	115,129	392,800	507,929	-
Capital assets not being depreciated	981,029	822,295	1,803,324	110,336
Capital assets being depreciated (net)	<u>4,981,942</u>	<u>17,042,313</u>	<u>22,024,255</u>	<u>315,371</u>
<b>Total assets</b>	<b><u>16,370,748</u></b>	<b><u>26,163,631</u></b>	<b><u>42,534,379</u></b>	<b><u>2,365,760</u></b>
<b>Deferred Outflows of Resources</b>				
Pension plan related	280,797	71,453	352,250	-
OPEB plan related	<u>53,618</u>	<u>13,212</u>	<u>66,830</u>	-
Deferred loss on refunding debt	-	218,627	218,627	-
<b>Total deferred outflows of resources</b>	<b><u>334,415</u></b>	<b><u>303,292</u></b>	<b><u>637,707</u></b>	<b><u>-</u></b>
<b>Liabilities</b>				
Accounts payable	135,859	249,838	385,697	-
Taxes payable	348	8,359	8,707	-
Due to component unit	117,745	-	117,745	-
Due to others	46,508	-	46,508	-
Accrued interest payable	6,806	4,646	11,452	-
Unearned revenues	-	11,486	11,486	-
Customer deposits	-	228,996	228,996	-
Long-term liabilities:				
Portion due or payable within one year	354,279	401,293	755,572	176,170
Portion due or payable after one year	<u>1,280,336</u>	<u>3,228,074</u>	<u>4,508,410</u>	<u>811,495</u>
Net pension liability	1,420,165	349,953	1,770,118	-
Total OPEB liability	<u>340,700</u>	<u>83,954</u>	<u>424,654</u>	<u>-</u>
<b>Total liabilities</b>	<b><u>3,702,746</u></b>	<b><u>4,566,599</u></b>	<b><u>8,269,345</u></b>	<b><u>987,665</u></b>
<b>Deferred Inflows of Resources</b>				
Pension plan related	721,510	177,792	899,302	-
OPEB plan related	<u>27,904</u>	<u>6,875</u>	<u>34,779</u>	<u>-</u>
<b>Total deferred inflows of resources</b>	<b><u>749,414</u></b>	<b><u>184,667</u></b>	<b><u>934,081</u></b>	<b><u>-</u></b>
<b>Net Position</b>				
Net investment in capital assets	4,713,773	14,336,945	19,050,718	425,707
Restricted	4,539,191	2,765,301	7,304,492	-
Unrestricted	<u>3,000,039</u>	<u>4,613,411</u>	<u>7,613,450</u>	<u>952,388</u>
<b>Total net position</b>	<b><u>\$ 12,253,003</u></b>	<b><u>\$ 21,715,657</u></b>	<b><u>\$ 33,968,660</u></b>	<b><u>\$ 1,378,095</u></b>

*See accompanying notes to the basic financial statements.*

**THE CITY OF VERNON, TEXAS**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2020**

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
<b>Primary government:</b>			
<b>Governmental activities:</b>			
General government	\$ 868,251	\$ 177,481	\$ 113,060
Public safety	3,445,471	879,422	11,843
Public works	1,008,095	46,417	-
Cemetery and parks	585,050	139,530	22,265
Subsidies, donations and other	474,842	22,309	-
Christmas decorations	7,467	-	6,003
Civic and cultural	115,425	-	-
Economic development	89,895	-	-
Interest expense	34,289	-	-
Total governmental activities	<u>6,628,785</u>	<u>1,265,159</u>	<u>153,171</u>
<b>Business-type activities:</b>			
Water	1,891,610	3,901,068	-
Sewer	1,122,153	2,254,927	-
Sanitation	1,804,675	1,563,505	-
Other	160,087	157,850	-
Total business-type activities	<u>4,978,525</u>	<u>7,877,350</u>	<u>-</u>
<b>Total primary government</b>	<u>\$ 11,607,310</u>	<u>\$ 9,142,509</u>	<u>\$ 153,171</u>
<b>Component unit:</b>			
Business Development Corporation of Vernon	<u>\$ 451,251</u>	<u>\$ 58,125</u>	<u>\$ -</u>
<b>General revenues and transfers:</b>			
<b>Taxes:</b>			
Property taxes, levied for general purposes			
Property taxes, levied for debt service purposes			
Franchise fees			
Sales taxes			
Hotel occupancy taxes			
Other taxes			
Interest earnings			
Miscellaneous			
<b>Transfers</b>			
Total general revenues and transfers			
<b>Change in net position</b>			
<b>Net position - beginning</b>			
<b>Net position - ending</b>			

*See accompanying notes to the basic financial statements.*

Net (Expense) Revenue and Changes in Net Position					
Primary Government					
Governmental Activities	Business-type Activities	Total	Component Unit		
\$	\$	\$	\$	\$	\$
(577,710)	-	(577,710)			-
(2,554,206)	-	(2,554,206)			-
(961,678)	-	(961,678)			-
(423,255)	-	(423,255)			-
(452,533)	-	(452,533)			-
(1,464)	-	(1,464)			-
(115,425)	-	(115,425)			-
(89,895)	-	(89,895)			-
(34,289)	-	(34,289)			-
<u>(5,210,455)</u>	<u>-</u>	<u>(5,210,455)</u>			-
	2,009,458	2,009,458			-
	1,132,774	1,132,774			-
	(241,170)	(241,170)			-
	(2,237)	(2,237)			-
	<u>2,898,825</u>	<u>2,898,825</u>			-
	<u>(5,210,455)</u>	<u>2,898,825</u>	<u>(2,311,630)</u>		-
			(393,126)		
1,744,897	-	1,744,897			-
646,805	-	646,805			-
581,016	-	581,016			-
1,371,645	-	1,371,645	685,822		
348,733	-	348,733			-
12,371	-	12,371			-
114,401	93,578	207,979	12,761		
185,422	41,545	226,967			-
1,408,322	<u>(1,408,322)</u>	<u>-</u>			-
<u>6,413,612</u>	<u>(1,273,199)</u>	<u>5,140,413</u>	<u>698,583</u>		-
1,203,157	1,625,626	2,828,783	305,457		
<u>11,049,846</u>	<u>20,090,031</u>	<u>31,139,877</u>	<u>1,072,638</u>		
<u>\$ 12,253,003</u>	<u>\$ 21,715,657</u>	<u>\$ 33,968,660</u>	<u>\$ 1,378,085</u>		

**THE CITY OF VERNON, TEXAS**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**SEPTEMBER 30, 2020**

	General	Debt Service Fund	Electric Trust Principal	Other Governmental	Total Governmental Funds
<b>Assets</b>					
Cash and cash equivalents	\$ 3,301,017	\$ 407,286	\$ 2,901,402	\$ 1,036,698	\$ 7,646,403
Receivables:					
Ambulance (net)	263,500	-	-	-	263,500
Property taxes (net)	119,038	43,311	-	-	162,349
Sales taxes	350,307	-	-	-	350,307
Franchise fees	39,028	-	-	-	39,028
Hotel occupancy taxes	-	-	-	51,989	51,989
Other governments	25,805	9,649	-	-	35,454
Other	42,198	-	-	-	42,198
Due from other funds	45,407	-	-	2,102	47,509
Other assets	48,877	-	-	-	48,877
Restricted assets:					
Cash and cash equivalents	115,129	-	-	-	115,129
<b>Total assets</b>	<b><u>\$ 4,350,306</u></b>	<b><u>\$ 460,246</u></b>	<b><u>\$ 2,901,402</u></b>	<b><u>\$ 1,090,789</u></b>	<b><u>\$ 8,802,743</u></b>
 <b>Liabilities, deferred inflows of resources, and fund balances</b>					
Liabilities:					
Accounts payable	\$ 44,885	\$ -	\$ -	\$ 602	\$ 45,487
Taxes payable	348	-	-	-	348
Due to other funds	5,249	-	-	43,814	49,063
Due to component unit	117,745	-	-	-	117,745
Due to others	-	-	-	46,508	46,508
Total liabilities	<u>168,227</u>	<u>-</u>	<u>-</u>	<u>90,924</u>	<u>259,151</u>
Deferred inflows of resources:					
Unavailable revenues	326,573	41,248	-	-	367,821
Fund balances:					
Restricted	218,926	418,998	2,901,402	999,865	4,539,191
Committed	85,621	-	-	-	85,621
Unassigned	3,550,959	-	-	-	3,550,959
Total fund balances	<u>3,855,506</u>	<u>418,998</u>	<u>2,901,402</u>	<u>999,865</u>	<u>8,175,771</u>
<b>Total liabilities, deferred inflows of resources, and fund balances</b>	<b><u>\$ 4,350,306</u></b>	<b><u>\$ 460,246</u></b>	<b><u>\$ 2,901,402</u></b>	<b><u>\$ 1,090,789</u></b>	<b><u>\$ 8,802,743</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, 2020**

Total fund balances - governmental funds (Exhibit A-3) \$ 8,175,771

Amounts reported for *governmental activities* 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	\$ 10,857,529	5,962,971
Related accumulated depreciation	<u>4,894,558</u>	

Property taxes receivable are not available to pay for current period expenditures and therefore are deferred inflows of resources in the funds. 154,875

Ambulance fees receivable are not available to pay for current period expenditures and therefore are deferred inflows of resources in the funds. 212,946

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. 118,554

Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:

Bonds payable	923,716	(1,634,615)
Bond premiums	103,447	
Capital leases	222,035	
Compensated absences	<u>385,417</u>	

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: (6,806)

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	280,797	(1,860,878)
Net pension liability	(1,420,165)	
Deferred inflows of resources - pension plan related	<u>(721,510)</u>	

The City's total OPEB (other post-employment benefit) liability and related deferred outflows and inflows related to the Supplemental Death Benefit Fund (SDBF) from 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 - OPEB plan related	53,618	(314,986)
Total OPEB liability	(340,700)	
Deferred inflows of resources - OPEB plan related	<u>(27,904)</u>	

The assets and liabilities of the internal service funds are included in the governmental activities in the Statement of Net Position. 1,445,171

Total net position - governmental activities (Exhibit A-1) \$ 12,253,003

*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, 2020**

	General	Debt Service	Electric Trust Principal	Other Governmental	Total Governmental Funds
<b>Revenues</b>					
Property taxes	\$ 1,738,668	\$ 643,855	\$ -	\$ -	\$ 2,382,523
Franchise fees	607,244	-	-	-	607,244
Sales taxes	1,371,645	-	-	-	1,371,645
Hotel occupancy taxes	-	-	-	348,733	348,733
Other taxes	12,371	-	-	-	12,371
Licenses and permits	27,546	-	-	-	27,546
Cemetery income	42,008	-	-	-	42,008
Contracts	243,743	-	-	-	243,743
Swimming pool	71,155	-	-	-	71,155
Ambulance service	602,038	-	-	-	602,038
Administrative charges to other funds	289,558	-	-	-	289,558
Fines and fees	108,131	-	-	1,879	110,010
Grants and donations	112,068	-	-	41,103	153,171
Investment earnings	37,782	5,132	34,663	10,209	87,786
Other revenues	189,464	(669)	-	2,741	191,536
<b>Total revenues</b>	<b>5,453,421</b>	<b>648,318</b>	<b>34,663</b>	<b>404,665</b>	<b>6,541,057</b>
<b>Expenditures</b>					
General government	864,856	-	-	3,798	868,654
Public safety	3,308,645	-	-	14,123	3,322,768
Public works	988,006	-	-	-	988,006
Cemetery and parks	542,005	-	-	-	542,005
Subsidies, donations and other	474,842	-	-	-	474,842
Christmas decorations	-	-	-	7,467	7,467
Civic and cultural	-	-	-	115,425	115,425
Economic development	-	-	-	89,895	89,895
Capital outlay	204,588	-	-	-	204,588
Debt service:					
Principal	33,684	43,215	-	-	76,899
Interest charges	6,677	35,355	-	-	42,032
<b>Total expenditures</b>	<b>6,423,303</b>	<b>78,570</b>	<b>-</b>	<b>230,708</b>	<b>6,732,581</b>
<b>Excess of revenues over (under) expenditures</b>	<b>(969,882)</b>	<b>569,748</b>	<b>34,663</b>	<b>173,957</b>	<b>(191,514)</b>
<b>Other Financing Sources (Uses)</b>					
Proceeds from sale of capital assets	1,109	-	-	-	1,109
Proceeds from sale of perpetual care spaces	-	-	-	903	903
Transfers in	2,015,347	-	-	-	2,015,347
Transfers out	-	(556,480)	(29,545)	(21,000)	(607,025)
<b>Total other financing sources (uses)</b>	<b>2,016,456</b>	<b>(556,480)</b>	<b>(29,545)</b>	<b>(20,097)</b>	<b>1,410,334</b>
<b>Net change in fund balance</b>	<b>1,046,574</b>	<b>13,268</b>	<b>5,118</b>	<b>153,860</b>	<b>1,218,820</b>
<b>Fund balances - beginning</b>	<b>2,808,932</b>	<b>405,730</b>	<b>2,896,284</b>	<b>846,005</b>	<b>6,956,951</b>
<b>Fund balances - ending</b>	<b>\$ 3,855,506</b>	<b>\$ 418,998</b>	<b>\$ 2,901,402</b>	<b>\$ 999,865</b>	<b>\$ 8,175,771</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, 2020**

Net change in fund balances - total governmental funds (Exhibit A-5)	\$ 1,218,820
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	\$ 204,588
Depreciation expense for the year	<u>356,923</u>
	(152,335)
The net book value of the capital assets disposed of during the year was:	
	(7,223)
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	9,179
Ambulance fees	(121,802)
Franchise fees	<u>(26,228)</u>
	(138,851)
Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. Principal payments during the year were:	
Bonds payable	43,215
Capital leases payable	<u>33,874</u>
	77,089
Accrued interest payable from the beginning of the year to the end of the year changed by:	
	863
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:	
	(28,041)
The amortization of the bond premium for the year was:	
	6,690
The City participates in an agent multiple-employer defined benefit pension plan. Contributions to the plan are expenditures at the fund level when payments are due. At the government-wide level, pension expenses are recognized on an actuarial basis. Payments were more than the actuarial expense in the current year.	
	161,242
The City participates in a single-employer defined benefit OPEB plan. Contributions to the plan are expenditures at the fund level when payments are due. At the government-wide level, OPEB expenses are recognized on an actuarial basis. Payments were less than the actuarial expense in the current year.	
	(24,552)
The internal service funds' activities related to the General Fund are included in the Statement of Activities of the governmental activities.	
	<u>89,455</u>
Change in net position of governmental activities (Exhibit A-2)	<u>\$ 1,203,157</u>

*See accompanying notes to the basic financial statements.*

**THE CITY OF VERNON, TEXAS**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
**SEPTEMBER 30, 2020**

	<u>Enterprise</u> <u>Fund</u>	<u>Internal</u> <u>Service</u> <u>Funds</u>
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 7,651,670	\$ 1,158,919
Receivables:		
Customers (net)	629,173	-
Due from other funds	4,552	-
Other assets	450	7,187
Note receivable, current portion	-	95,629
Restricted assets:		
Cash and cash equivalents	392,800	-
Total current assets	<u>8,678,645</u>	<u>1,261,735</u>
<b>Long-term assets:</b>		
Note receivable, net of current portion	-	415,532
Capital assets not being depreciated	822,295	-
Capital assets being depreciated (net)	17,042,313	-
Total long-term assets	<u>17,864,608</u>	<u>415,532</u>
<b>Total assets</b>	<u>26,543,253</u>	<u>1,677,267</u>
<b>Deferred Outflows of Resources:</b>		
Pension plan related	71,453	-
OPEB plan related	13,212	-
Deferred loss on refunding debt	218,627	-
Total deferred outflows of resources	<u>303,292</u>	<u>-</u>
<b>Liabilities</b>		
<b>Current liabilities:</b>		
Accounts payable	249,838	90,372
Taxes payable	8,359	-
Due to other funds	2,998	-
Accrued interest payable	11,833	-
Unearned revenues	11,486	-
Customer deposits	228,996	-
Current maturities of long-term obligations	496,922	-
Total current liabilities	<u>1,010,432</u>	<u>90,372</u>
<b>Long-term liabilities:</b>		
Long-term obligations, less current maturities	3,643,606	-
Net pension liability	349,953	-
Total OPEB liability	83,954	-
Total long-term liabilities	<u>4,077,513</u>	<u>-</u>
<b>Total liabilities</b>	<u>5,087,945</u>	<u>90,372</u>
<b>Deferred Inflows of Resources:</b>		
Pension plan related	177,792	-
OPEB plan related	6,875	-
Total deferred inflows of resources	<u>184,667</u>	<u>-</u>
<b>Net Position</b>		
Net investment in capital assets	14,336,945	-
Restricted	2,765,301	-
Unrestricted	4,471,687	1,586,895
Total net position	<u>21,573,933</u>	<u>\$ 1,586,895</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	141,724	-
<b>Net position of business-type activities</b>	<u>\$ 21,715,657</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, 2020**

	<u>Enterprise Fund</u>	<u>Internal Service Funds</u>
	<u>Utility Fund</u>	
<b>Operating revenues:</b>		
Water revenues	\$ 3,849,801	\$ -
Sewer revenues	2,254,927	-
Sanitation revenues	1,563,505	-
Charges and fees	-	911,107
Late fees	140,654	-
Other revenues	41,545	-
Total operating revenues	<u>7,850,432</u>	<u>911,107</u>
<b>Operating expenses:</b>		
Billing and collection	231,042	-
Water	1,339,899	-
Sewer	659,697	-
Sanitation	1,704,340	-
Insurance claims and related	-	830,628
Bad debts	104,116	-
Depreciation	775,176	-
Other operating expenses	57,943	-
Total operating expenses	<u>4,872,213</u>	<u>830,628</u>
<b>Operating income</b>	<u>2,978,219</u>	<u>80,479</u>
<b>Nonoperating revenues (expenses):</b>		
Interest income	93,578	26,614
Rent income	51,267	-
Bad debt recoveries	17,196	-
Interest expense	(123,950)	-
Total nonoperating revenues (expenses)	<u>38,091</u>	<u>26,614</u>
<b>Income before transfers</b>	<u>3,016,310</u>	<u>107,093</u>
<b>Transfers in</b>	<u>556,480</u>	<u>-</u>
<b>Transfers out</b>	<u>(1,964,802)</u>	<u>-</u>
<b>Net transfers</b>	<u>(1,408,322)</u>	<u>-</u>
<b>Change in net position</b>	<u>1,607,988</u>	<u>107,093</u>
<b>Net position - beginning</b>	<u>19,965,945</u>	<u>1,479,802</u>
<b>Net position - ending</b>	<u>21,573,933</u>	<u>\$ 1,586,895</u>
<b>Reconciliation to government-wide statement of activities:</b>		
Adjustment to reflect the consolidation of the Internal Service Funds' activities related to the Enterprise Fund	17,638	
Change in net position of the business-type activities	<u>\$ 1,625,626</u>	

*See accompanying notes to the basic financial statements.*

**THE CITY OF VERNON, TEXAS**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**SEPTEMBER 30, 2020**

	<u>Enterprise</u> <u>Fund</u>	<u>Internal</u> <u>Service</u> <u>Funds</u>
<b>Cash flows from operating activities:</b>		
Received from customers	\$ 7,969,680	\$ 911,107
Payments to suppliers	(3,074,654)	-
Payments to employees	(1,049,931)	-
Payments to claimants/beneficiaries	-	(885,747)
Net cash provided by operating activities	<u>3,845,095</u>	<u>25,360</u>
<b>Cash flows from noncapital financing activities:</b>		
Bad debt recoveries	17,196	-
Transfers from other funds	556,480	-
Transfers to other funds	(1,964,802)	-
Net cash used by noncapital financing activities	<u>(1,391,126)</u>	<u>-</u>
<b>Cash flows from capital and related financing activities:</b>		
Governmental capital grant	3,000	-
Acquisition and construction of capital assets	(1,059,319)	-
Principal paid on long-term debt	(550,055)	-
Interest paid on long-term debt	(124,345)	-
Net cash used by capital and related financing activities	<u>(1,730,719)</u>	<u>-</u>
<b>Cash flows from investing activities:</b>		
Principal payments on note receivable	-	93,270
Interest on investments	93,578	26,454
Rents received	51,267	-
Net cash provided by investing activities	<u>144,845</u>	<u>119,724</u>
<b>Net Increase in Cash and Cash Equivalents</b>	<b>868,095</b>	<b>145,084</b>
<b>Cash and Cash Equivalents - Beginning</b>	<b>7,176,375</b>	<b>1,013,835</b>
<b>Cash and Cash Equivalents - Ending</b>	<b><u>\$ 8,044,470</u></b>	<b><u>\$ 1,158,919</u></b>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</b>		
Operating income	<u>\$ 2,978,219</u>	<u>\$ 80,479</u>
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	775,176	-
Amortization	(10,849)	-
(Increase) decrease in current assets and deferred outflows of resources:		
Customer utility receivables	54,017	-
Property tax receivables	7	-
Due from other funds	59,453	+
Deferred outflows of resources	199,764	-
Increase (decrease) in current liabilities and deferred inflows of resources:		
Accounts payable	45,186	(55,119)
Taxes payable	2	-
Due to other funds	(1,364)	-
Customer deposits	7,135	-
Compensated absences	9,688	-
Net pension liability	(383,756)	-
Total OPEB liability	9,632	-
Deferred inflows of resources	102,785	-
Total adjustments	<u>866,876</u>	<u>(55,119)</u>
Net cash provided by operating activities	<u><b>\$ 3,845,095</b></u>	<u><b>\$ 25,360</b></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	\$ 7,651,670	\$ 1,158,919
Restricted assets - cash and cash equivalents	392,800	-
Total cash and cash equivalents - ending	<u><b>\$ 8,044,470</b></u>	<u><b>\$ 1,158,919</b></u>

*See accompanying notes to the basic financial statements.*

**THE CITY OF VERNON, TEXAS**  
**STATEMENT OF ASSETS AND LIABILITIES**  
**FIDUCIARY FUNDS**  
**SEPTEMBER 30, 2020**

	<b>Agency Funds</b>
<b>Assets</b>	
Cash and cash equivalents	\$ 13,620
Total assets	<u>\$ 13,620</u>
 <b>Liabilities</b>	
Payable to others	\$ 13,620
Total liabilities	<u>\$ 13,620</u>

*See accompanying notes to the basic financial statements.*

EXHIBIT A-11

**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, 2020**

	Budgeted Amounts			Variance With Final Budget - Positive (Negative)
	Original	Final	Actual	
<b>Revenues</b>				
Property taxes	\$ 1,665,400	\$ 1,707,407	\$ 1,738,668	\$ 31,261
Franchise fees	586,000	517,000	607,244	90,244
Sales taxes	1,280,000	1,330,000	1,371,645	41,645
Other taxes	16,000	12,300	12,371	71
Licenses and permits	10,000	25,000	27,546	2,546
Cemetery income	49,960	36,600	42,008	5,408
Contracts	215,394	237,718	243,743	6,025
Swimming pool	78,400	70,000	71,155	1,155
Ambulance service	620,000	514,000	602,038	88,038
Administrative charges to other funds	322,445	322,455	289,558	(32,897)
Fines and fees	89,400	82,820	108,131	25,311
Grants and donations	500	500	112,068	111,568
Investment earnings	94,300	43,850	37,782	(6,068)
Other revenues	79,300	130,960	189,464	58,504
<b>Total revenues</b>	<b>5,107,099</b>	<b>5,030,610</b>	<b>5,453,421</b>	<b>422,811</b>
<b>Expenditures</b>				
General government	1,070,351	993,413	864,856	128,557
Public safety	3,561,966	3,578,600	3,308,645	269,955
Public works	1,101,226	1,076,447	988,006	88,441
Cemetery and parks	553,912	585,804	542,005	43,799
Subsidies, donations and other	503,822	537,322	474,842	62,480
Capital outlay	215,200	237,600	204,588	33,012
Debt service:				
Principal	32,938	33,685	33,684	1
Interest charges	7,500	6,678	6,677	1
<b>Total expenditures</b>	<b>7,046,915</b>	<b>7,049,549</b>	<b>6,423,303</b>	<b>626,246</b>
<b>Excess of revenues over (under) expenditures</b>	<b>(1,939,816)</b>	<b>(2,018,939)</b>	<b>(969,882)</b>	<b>1,049,057</b>
<b>Other Financing Sources</b>				
Proceeds from the sale of capital assets	10,000	10,500	1,109	(9,391)
Transfers in	1,916,506	2,051,272	2,015,347	(35,925)
<b>Total other financing sources</b>	<b>1,926,506</b>	<b>2,061,772</b>	<b>2,016,456</b>	<b>(45,316)</b>
<b>Net change in fund balance</b>	<b>(13,310)</b>	<b>42,833</b>	<b>1,046,574</b>	<b>1,003,741</b>
<b>Fund balances - beginning</b>	<b>2,808,932</b>	<b>2,808,932</b>	<b>2,808,932</b>	<b>-</b>
<b>Fund balances - ending</b>	<b>\$ 2,795,622</b>	<b>\$ 2,851,765</b>	<b>\$ 3,855,506</b>	<b>\$ 1,003,741</b>

See accompanying notes to the basic financial statements.

**THE CITY OF VERNON, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2020**

**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, 2020**

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

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

**Fund Financial Statements**

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

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

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

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

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

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

**THE CITY OF VERNON, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)**  
**SEPTEMBER 30, 2020**

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

The City reports the following major governmental funds:

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

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

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

The City reports the following major enterprise fund:

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

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

Other Governmental Funds include the Special Revenue Funds.

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

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

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

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

**THE CITY OF VERNON, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)**  
**SEPTEMBER 30, 2020**

**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, 2020**

**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 \$.41242 per \$100 in assessed valuation. Additionally, the City levied a tax for debt service of \$.15229 per \$100 in assessed valuation; therefore, the total tax rate was \$.56471 per \$100 in assessed valuation.

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

**3. Inventories and Prepaid Items**

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

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

**4. Assets Held for Sale**

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

**5. Capital Assets**

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

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

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

**THE CITY OF VERNON, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)**  
**SEPTEMBER 30, 2020**

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

**6. Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. Certain amounts related to the City's participation in a pension plan (see Note 10) and an OPEB plan (see Note 11) are reported in this category, along with deferred losses on bond refunding.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflow of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has three types of items that qualify for reporting in this category. Property taxes receivable (\$154,875) and ambulance receivables (\$212,946) are unavailable and therefore cannot be recognized as revenue in the governmental funds until they are received. There are also certain items related to the City's participation in a pension plan (see Note 10) that is reported in this category.

**7. Compensated Absences**

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

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

**8. Long-Term Obligations**

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

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

**THE CITY OF VERNON, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)**  
**SEPTEMBER 30, 2020**

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

**9. Fund Balances – Governmental Funds**

Fund balances of the governmental funds are classified as follows:

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

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

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

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

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

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

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

**10. Transactions Between Funds**

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

**THE CITY OF VERNON, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)**  
**SEPTEMBER 30, 2020**

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

**11. Risk Management**

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

**12. Use of Estimates**

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

**13. Pension Plan**

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

**14. Other Post-Employment Benefits**

The fiduciary net position of the TMRS Supplemental Death Benefit Fund (SDBF) has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to other post-employment benefits, OPEB expense, and information about assets, liabilities and additions to/deductions from the SDBF's fiduciary net position. Benefit payments are recognized when due and payable in accordance with the benefit terms. There are no investments as this is a pay-as-you-go-plan and all cash is held in a cash account.

**THE CITY OF VERNON, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)**  
**SEPTEMBER 30, 2020**

**2. COMPLIANCE AND ACCOUNTABILITY**

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

There were no violations of finance-related legal and contractual provisions for the year ended September 30, 2020.

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

As of September 30, 2020, there were no funds with a deficit fund balance or deficit net position balance.

**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, 2020, the carrying amount of the City's deposits (cash and interest-bearing savings accounts included in temporary investments) was \$16,964,927 and the bank balance was \$17,138,133, including fiduciary accounts. The City's cash deposits at September 30, 2020, and during the year ended September 30, 2020, 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, 2020, the carrying amount of the Corporation's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$1,822,308 and the bank balance was \$1,822,308. The Corporation's cash deposits at September 30, 2020, and during the year ended September 30, 2020, were entirely covered by FDIC insurance.

**B. Investments**

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

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

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

**THE CITY OF VERNON, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)**  
**SEPTEMBER 30, 2020**

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

The City's investments at September 30, 2020 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>\$ 2,901,402</u>

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

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

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

**1. Credit Risk**

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

**2. Custodial Credit Risk**

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

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

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

**THE CITY OF VERNON, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)**  
**SEPTEMBER 30, 2020**

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

**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.

**4. RECEIVABLES**

Receivables and related allowances for uncollectibles consisted of the following items on September 30, 2020:

	<u>Gross Receivable</u>	<u>Allowance</u>	<u>Net Receivable</u>
<b>General Fund:</b>			
Ambulance	\$ 579,162	\$ 315,662	\$263,500
Property taxes	173,700	54,662	119,038
Sales taxes	350,307	-	350,307
Franchise fees	39,028	-	39,028
Other governments	25,805	-	25,805
Other	42,198	-	42,198
<b>Debt Service Fund:</b>			
Property taxes	49,921	6,610	43,311
Other governments	9,649	-	9,649
<b>Other Governmental Funds:</b>			
Hotel occupancy taxes	51,989	-	51,989
<b>Utility Fund:</b>			
Customers	670,828	41,655	629,173

The City expects to collect substantially all of the net receivables within one year, except for ambulance fees and property taxes. The City anticipates collecting \$150,000 of the ambulance fees and \$50,000 of the property tax receivable within one year, which is similar to the current year.

**THE CITY OF VERNON, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)**  
**SEPTEMBER 30, 2020**

**5. CAPITAL ASSETS**

Capital asset activity for governmental activities for the year ended September 30, 2020 was as follows:

Governmental activities:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
<b>Capital assets not being depreciated:</b>				
Land	<u>\$ 981,029</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 981,029</u>
<b>Capital assets being depreciated:</b>				
Buildings and improvements	<u>2,320,957</u>	<u>-</u>	<u>-</u>	<u>2,320,957</u>
Infrastructure	<u>2,812,648</u>	<u>-</u>	<u>-</u>	<u>2,812,648</u>
Equipment, furniture, fixtures, etc.	<u>1,962,880</u>	<u>103,295</u>	<u>11,454</u>	<u>2,054,721</u>
Vehicles	<u>2,599,627</u>	<u>101,293</u>	<u>12,746</u>	<u>2,688,174</u>
<b>Total capital assets being depreciated</b>	<u>9,696,112</u>	<u>204,588</u>	<u>24,200</u>	<u>9,876,500</u>
<b>Less accumulated depreciation for:</b>				
Buildings and improvements	<u>1,009,378</u>	<u>54,656</u>	<u>-</u>	<u>1,064,034</u>
Infrastructure	<u>389,512</u>	<u>57,768</u>	<u>-</u>	<u>447,280</u>
Equipment, furniture, fixtures, etc.	<u>1,442,267</u>	<u>106,148</u>	<u>11,454</u>	<u>1,536,961</u>
Vehicles	<u>1,713,455</u>	<u>138,351</u>	<u>5,523</u>	<u>1,846,283</u>
<b>Total accumulated depreciation</b>	<u>4,554,612</u>	<u>356,923</u>	<u>16,977</u>	<u>4,894,558</u>
<b>Total capital assets being depreciated, net</b>	<u>5,141,500</u>	<u>(152,335)</u>	<u>7,223</u>	<u>4,981,942</u>
<b>Governmental activities capital assets, net</b>	<u><b>\$6,122,529</b></u>	<u><b>(\$152,335)</b></u>	<u><b>\$ 7,223</b></u>	<u><b>\$5,962,971</b></u>

Depreciation expense was charged to departments as follows:

General Government	\$ 17,726
Public Safety	219,034
Public Works	63,536
Cemetery and Parks	<u>56,627</u>
	<b><u>\$356,923</u></b>

**THE CITY OF VERNON, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)**  
**SEPTEMBER 30, 2020**

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

Business-type activities:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
<b>Capital assets not being depreciated:</b>				
Land	\$ 721,690	\$ -	\$ -	\$ 721,690
Construction in progress	<u>435,457</u>	<u>100,605</u>	<u>435,457</u>	<u>100,605</u>
<b>Total capital assets not being depreciated</b>	<u>1,157,147</u>	<u>100,605</u>	<u>435,457</u>	<u>822,295</u>
<b>Capital assets being depreciated:</b>				
Buildings and improvements	28,679,693	1,182,697	-	29,862,390
Equipment, furniture, fixtures, etc.	<u>2,193,928</u>	<u>172,094</u>	-	2,366,022
Vehicles	<u>373,951</u>	<u>39,380</u>	<u>16,944</u>	<u>396,387</u>
<b>Total capital assets being depreciated</b>	<u>31,247,572</u>	<u>1,394,171</u>	<u>16,944</u>	<u>32,624,799</u>
<b>Less accumulated depreciation for:</b>				
Buildings and improvements	13,271,701	631,306	-	13,903,007
Equipment, furniture, fixtures, etc.	<u>1,226,846</u>	<u>125,879</u>	-	1,352,725
Vehicles	<u>325,707</u>	<u>17,991</u>	<u>16,944</u>	<u>326,754</u>
<b>Total accumulated depreciation</b>	<u>14,824,254</u>	<u>775,176</u>	-	<u>15,582,486</u>
<b>Total capital assets being depreciated, net</b>	<u>16,423,318</u>	<u>618,995</u>	-	<u>17,042,313</u>
<b>Business-type activities capital assets, net</b>	<u>\$17,580,465</u>	<u>\$ 719,600</u>	<u>\$435,457</u>	<u>\$17,864,608</u>

Depreciation expense was charged to departments as follows:

Business-type activities:	
Water	\$421,979
Sewer	328,890
Sanitation	<u>24,307</u>
<b><u>\$775,176</u></b>	

Business Development Corporation:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
<b>Capital assets not being depreciated:</b>				
Land	\$ 99,092	\$ -	\$ -	\$ 99,092
Website development (in progress)	<u>11,244</u>	-	-	<u>11,244</u>
<b>Total capital assets not being depreciated</b>	<u>110,336</u>	-	-	<u>110,336</u>
<b>Capital assets being depreciated:</b>				
Buildings and improvements	547,517	-	-	547,517
Equipment, furniture, fixtures, etc.	<u>15,338</u>	<u>6,312</u>	-	<u>21,650</u>
<b>Total capital assets being depreciated</b>	<u>562,855</u>	<u>6,312</u>	-	<u>569,167</u>
<b>Less accumulated depreciation for:</b>				
Buildings and improvements	224,935	13,523	-	238,458
Equipment, furniture, fixtures, etc.	<u>15,338</u>	-	-	<u>15,338</u>
<b>Total accumulated depreciation</b>	<u>240,273</u>	<u>13,523</u>	-	<u>253,796</u>
<b>Total capital assets being depreciated, net</b>	<u>322,582</u>	<u>( 7,211)</u>	-	<u>315,371</u>
<b>BDC capital assets, net</b>	<u>\$432,918</u>	<u>(\$ 7,211)</u>	<u>\$ -</u>	<u>\$425,707</u>

**THE CITY OF VERNON, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)**  
**SEPTEMBER 30, 2020**

**6. *INTERFUND BALANCES AND ACTIVITY***

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

Balances due to and due from other funds at September 30, 2020 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	\$43,814	Short-term borrowings
General Fund	Enterprise Fund	1,593	Short-term borrowings
Other Governmental Funds	General Fund	697	Short-term borrowings
Other Governmental Funds	Enterprise Fund	1,405	Short-term borrowings
Enterprise Fund	General Fund	<u>4,552</u>	Short-term borrowings
<b>Total</b>		<b><u>\$52,061</u></b>	

All amounts are scheduled to be repaid within one year.

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

Transfers to and from other funds at September 30, 2020 consisted of the following:

<u>Transfers To</u>	<u>Transfers From</u>	<u>Amount</u>	<u>Reason</u>
General Fund	Electric Trust Principal	\$ 29,545	Interest transfer
General Fund	Other Governmental Funds	21,000	Park contributions & Main St.
General Fund	Enterprise Fund	1,964,802	Payment in lieu of taxes
Enterprise Fund	Debt Service Fund	<u>556,480</u>	Debt service payments
<b>Total</b>		<b><u>\$2,571,827</u></b>	

**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.

\$511,161

Related accrued interest at September 30, 2020

7,187

Total interfund long-term borrowings at September 30, 2020

**\$518,348**

**THE CITY OF VERNON, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)**  
**SEPTEMBER 30, 2020**

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

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>
2021	\$ 95,629	\$ 11,688	\$107,317
2022	98,047	9,270	107,317
2023	100,526	6,791	107,317
2024	103,069	4,248	107,317
2025	105,675	1,642	107,317
2026	8,215	17	8,232
<b>Totals</b>	<b>\$511,161</b>	<b>\$ 33,656</b>	<b>\$544,817</b>

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, 2020.

**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, 2020 are as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Amount Due Within One Year</u>
<b><u>Governmental Activities:</u></b>					
Bonds payable	\$ 966,931	\$ -	\$ 43,215	\$ 923,716	\$ 45,916
Bond premiums	110,137	-	6,690	103,447	-
Capital leases	255,909	-	33,874	222,035	34,717
Compensated absences *	357,376	207,060	179,019	385,417	273,646
<b>Total governmental activities</b>	<b>\$1,690,353</b>	<b>\$207,060</b>	<b>\$262,798</b>	<b>\$1,634,615</b>	<b>\$354,279</b>
<b><u>Business-type Activities:</u></b>					
Bonds payable	\$3,518,069	\$ -	\$436,785	\$3,081,284	\$309,084
Bond premiums	411,392	-	24,987	386,405	-
Note payable	79,974	-	20,000	59,975	20,000
Compensated absences *	92,015	45,397	35,709	101,703	72,209
<b>Total business-type activities</b>	<b>\$4,101,450</b>	<b>\$ 45,397</b>	<b>\$517,481</b>	<b>\$3,629,367</b>	<b>\$401,293</b>
<b><u>Business Development Corporation</u></b>					
Notes payable	\$1,155,327	\$ -	\$167,662	\$987,665	\$176,170

\* - Other long-term liabilities

**THE CITY OF VERNON, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)**  
**SEPTEMBER 30, 2020**

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

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

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

**B. Outstanding Bonds**

Bonds payable at September 30, 2020, including net unamortized premiums on the bonds, are comprised of the following:

<u>Description</u>	<u>Bonds Authorized</u>	<u>Range of Interest Rates</u>	<u>Final Maturity Date</u>	<u>Annual Serial Payments</u>	<u>Bonds Outstanding at 9/30/20</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
General Obligation Refunding Bonds, Series 2012	\$1,850,000	2.00% to 3.00%	3/15/2023	\$160,000 to \$205,000	\$ 585,000	\$ -	\$ 585,000
Plus bond premium					59,065	-	59,065
General Obligation Refunding Bonds, Series 2016	3,795,000	2.00% to 4.00%	3/15/2036	\$70,000 to \$200,000	3,420,000	923,716	2,496,284
Plus bond premium					430,787	103,447	327,340
<b>Total all bonds</b>					<b>\$4,494,852</b>	<b>\$1,027,163</b>	<b>\$3,467,689</b>

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

Debt service requirements on long-term bonds at September 30, 2020 are as follows:

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 45,916	\$ 34,018	\$ 79,934
2022	60,771	32,418	93,189
2023	62,121	30,574	92,695
2024	55,369	28,812	84,181
2025	56,719	26,847	83,566
2026-2030	330,863	96,667	427,530
2031-2035	252,537	37,948	290,485
2036	59,420	1,188	60,608
<b>Totals</b>	<b>\$923,716</b>	<b>\$288,472</b>	<b>\$1,212,188</b>

**THE CITY OF VERNON, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)**  
**SEPTEMBER 30, 2020**

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

<u>Year Ending September 30.</u>	<u>Business-type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 309,084	\$ 106,707	\$ 415,791
2022	359,229	96,682	455,911
2023	372,879	85,701	458,580
2024	149,631	77,863	227,494
2025	153,281	72,553	225,834
2026-2030	894,137	261,233	1,155,370
2031-2035	682,463	102,552	785,015
2036	160,580	3,212	163,792
<b>Totals</b>	<b>\$3,081,284</b>	<b>\$ 806,503</b>	<b>\$3,887,787</b>

**D. Capital Lease**

The commitment under the capitalized lease agreement for equipment provides for minimum future lease payments as of September 30, 2020 as follows:

<u>Year Ending September 30.</u>	<u>Governmental Activities</u>
2021	\$ 40,361
2022	40,951
2023	40,951
2024	40,951
2025	40,951
2026	<u>40,953</u>
Total minimum lease payments	245,118
Less amount representing interest	(23,083)
Present value of minimum lease payments	<u>\$222,035</u>

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

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

	<u>Governmental Activities</u>
Vehicles	\$543,393
Less accumulated depreciation	(213,735)
Net	<u>\$329,658</u>

**THE CITY OF VERNON, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)**  
**SEPTEMBER 30, 2020**

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

**E. Note Payable**

The City has a note payable at September 30, 2020 as follows:

**Business-type Activities:**

Note payable to the Bank of the West to finance the water exploration. The note is due in annual principal payments of \$20,000 plus interest at 4.00% per annum with the balance of the principal and accrued interest due in September 2023. The note is unsecured.

\$ 59,975

The debt service requirements on the note payable at September 30, 2020 are as follows:

<u>Year Ending September 30,</u>	<u>Business-type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$20,000	\$ 2,399	\$22,399
2022	20,000	1,599	21,599
2023	19,975	799	20,774
<b>Totals</b>	<b>\$59,975</b>	<b>\$ 4,797</b>	<b>\$64,772</b>

**THE CITY OF VERNON, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)**  
**SEPTEMBER 30, 2020**

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

**F. Combined Debt Service Requirements**

Debt service requirements on all long-term debt at September 30, 2020 are as follows:

<u>Year Ending September 30,</u>	<b>Governmental Activities</b>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 80,633	\$ 39,662	\$ 120,295
2022	96,025	38,115	134,140
2023	98,447	35,199	133,646
2024	92,800	32,332	125,132
2025	95,282	29,235	124,517
2026-2030	370,607	97,876	468,483
2031-2035	252,537	37,948	290,485
2036	<u>59,420</u>	<u>1,188</u>	<u>60,608</u>
<b>Totals</b>	<b><u>\$1,145,751</u></b>	<b><u>\$311,555</u></b>	<b><u>\$1,457,306</u></b>

<u>Year Ending September 30,</u>	<b>Business-type Activities</b>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 329,084	\$ 109,106	\$ 438,190
2022	379,229	98,281	477,510
2023	392,854	86,500	479,354
2024	149,631	77,863	227,494
2025	153,281	72,553	225,834
2026-2030	894,137	261,233	1,155,370
2031-2035	682,463	102,552	785,015
2036	<u>160,580</u>	<u>3,212</u>	<u>163,792</u>
<b>Totals</b>	<b><u>\$3,141,259</u></b>	<b><u>\$ 811,300</u></b>	<b><u>\$3,952,559</u></b>

**THE CITY OF VERNON, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)**  
**SEPTEMBER 30, 2020**

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

**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, 2020 as follows:

The note payable to the Texas Leverage Fund (#1) is payable in monthly installments of \$6,361 including interest at 3.25% per annum and is secured by sales tax receipts collected by BDC. The note matures in March 2025.

\$319,162

The note payable to the Texas Leverage Fund (#2) is payable in monthly installments of \$10,777 including interest at 3.25% per annum and is secured by sales tax receipts collected by BDC. The note matures in April 2026.

668,503

Total \$987,665

The debt service requirements on the notes payable at September 30, 2020 are as follows:

<u>Year Ending September 30,</u>	<u>BDC Notes Payable</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$176,170	\$ 29,490	\$ 205,660
2022	181,982	23,679	205,661
2023	187,985	17,675	205,660
2024	194,186	11,474	205,660
2025	247,342	6,369	253,711
<b>Totals</b>	<b><u>\$987,665</u></b>	<b><u>\$ 88,687</u></b>	<b><u>\$1,076,352</u></b>

**8. NET POSITION AND FUND BALANCES**

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

**THE CITY OF VERNON, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)**  
**SEPTEMBER 30, 2020**

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

Net Position:	Primary Government			Component Unit	
	Governmental Activities	Business-type Activities	Total		
<b>Restricted for:</b>					
Debt service	\$ 418,998	\$2,765,301	\$ 3,184,299	\$ -	
Public improvements:					
Expendable	107,153	-	107,153	-	
Nonexpendable	2,901,402	-	2,901,402	-	
Perpetual care:					
Nonexpendable	246,186	-	246,186	-	
Municipal court building security	28,750	-	28,750	-	
Municipal court technology	28,990	-	28,990	-	
Public, education, and government access	111,773	-	111,773	-	
Grants	957	-	957	-	
Public safety	23,808	-	23,808	-	
Parks and aquatics center	107,581	-	107,581	-	
Christmas decorations	10,894	-	10,894	-	
Tourism	<u>552,699</u>	<u>-</u>	<u>552,699</u>	<u>-</u>	
<b>Total restricted net position</b>	<b><u>\$4,539,191</u></b>	<b><u>\$2,765,301</u></b>	<b><u>\$7,304,492</u></b>	<b><u>\$ -</u></b>	
<b>Fund Balances:</b>					
<b>Governmental Funds</b>					
	General	Debt Service Fund	Electric Trust Principal	Other Governmental	Total
<b>Restricted for:</b>					
Public improvements	\$ 107,153	\$ -	\$2,901,402	\$ -	\$ 3,008,555
Public, education, and government access	111,773	-	-	-	111,773
Debt service	-	418,998	-	-	418,998
Municipal court building security	-	-	-	28,750	28,750
Municipal court technology	-	-	-	28,990	28,990
Grants	-	-	-	957	957
Public safety	-	-	-	23,808	23,808
Parks and aquatics center	-	-	-	107,581	107,581
Christmas decorations	-	-	-	10,894	10,894
Tourism	-	-	-	552,699	552,699
Perpetual care	<u>-</u>	<u>-</u>	<u>-</u>	<u>246,186</u>	<u>246,186</u>
<b>Total restricted fund balance</b>	<b><u>\$218,926</u></b>	<b><u>\$418,998</u></b>	<b><u>\$2,901,402</u></b>	<b><u>\$999,865</u></b>	<b><u>\$4,539,191</u></b>
<b>Committed for:</b>					
Main Street	<u>\$ 85,621</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 85,621</u>

**THE CITY OF VERNON, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)**  
**SEPTEMBER 30, 2020**

**9. SELF-FUNDED WORKERS COMPENSATION**

During the fiscal year ended September 30, 1992, the City began a self-insurance program for workers compensation. The Workers Compensation Fund, an internal service fund, was established for this program. Under prior arrangements, this program was administered by the Texas Municipal League. Stop-loss insurance is carried to cover claims in excess of \$250,000 in the aggregate. The City terminated the self-insurance program and obtained commercial coverage after that point during the year ended September 30, 2016. During the fiscal year ended September 30, 2020, the Workers Compensation Fund incurred \$2,000 of claims, stop-loss insurance premiums, and administrative costs. During the same period, the Fund did not receive any charges and fees from the General Fund, the Enterprise Fund or the BDC. Settled claims have not exceeded commercial coverage to date.

As of September 30, 2020, the reserve was \$0. Changes in the claims liability amounts in the fiscal years ended September 30, 2019 and 2020 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, 2019	\$ -	\$ -	\$ -	\$ -
FYE September 30, 2020	\$ -	\$ 2,000	\$ 2,000	\$ -

**10. DEFINED BENEFIT PENSION PLAN**

**A. Plan Description**

The City participates as one of 887 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the 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.tmrs.com](http://www.tmrs.com).

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

**B. Benefits Provided**

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

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

**THE CITY OF VERNON, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)**  
**SEPTEMBER 30, 2020**

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

*Employees Covered by Benefit Terms*

At the December 31, 2019 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	71
Inactive employees entitled to but not yet receiving benefits	111
Active employees	88

**C. Contributions**

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

Employees of the City were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City were 11.98% and 12.29% in calendar years 2019 and 2020, respectively. The City's contributions to TMRS for the year ended September 30, 2020 were \$467,393, and were equal to the required contributions.

**D. Net Pension Liability**

The City's Net Pension Liability (NPL) was measured as of December 31, 2019 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, 2019 actuarial valuation was determined using the following actuarial assumptions:

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

Salary increases were based on a service-related table. Mortality rates for active members are based on the PUB(10) mortality tables with the Public Safety table used for males and the General Employee table used for females. Mortality rates for healthy retirees and beneficiaries are based on the Gender-distinct 2019 Municipal Retirees of Texas mortality tables. The rates for actives, healthy retirees and beneficiaries are projected on the fully generational basis by Scale UMP to account for future mortality improvements. For disabled annuitants, the same mortality tables for healthy retirees is used with a 4-year set-forward for males and a 3-year set-forward for females. In addition, a 3.5% and 3.0% minimum mortality rate is applied, for males and females respectively, to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.

**THE CITY OF VERNON, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)**  
**SEPTEMBER 30, 2020**

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

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four-year period from December 31, 2014 to December 31, 2018. They were adopted in 2019 and first used in the December 31, 2019 actuarial valuation. The post-retirement mortality assumption for healthy annuitants and Annuity Purchase Rate (APRs) are based on the Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. In conjunction with these changes first used in the December 31, 2013 valuation, the System adopted the Entry Age Normal (EAN) actuarial cost method and a one-time change to the amortization policy. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, TMRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of real rates of return for each major asset class in fiscal year 2020 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return (Arithmetic)</u>
Global Equity	30.0%	5.30%
Core Fixed Income	20.0%	1.25%
Non-Core Fixed Income	10.0%	4.14%
Real Return	10.0%	3.85%
Real Estate	10.0%	4.00%
Absolute Return	10.0%	3.48%
Private Equity	<u>5.0%</u>	7.75%
<b>Total</b>	<b><u>100.0%</u></b>	

*Discount Rate*

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

**THE CITY OF VERNON, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)**  
**SEPTEMBER 30, 2020**

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

*Changes in Net Pension Liability / (Asset)*

	Total Pension Liability (a)	Fiduciary Net Position (b)	Increase (Decrease)	Net Pension Liability / (Asset) (a) - (b)
Balances as of December 31, 2018	\$21,956,958	\$18,422,718		\$3,534,240
Changes for the year:				
Service cost	542,719	-		542,719
Interest on total pension liability	1,460,532	-		1,460,532
Change in benefit terms	-	-		-
Difference between expected and actual experience	( 204,744)	-		( 204,744)
Change in assumptions	( 19,307)	-		( 19,307)
Contributions - employer	-	453,909		( 453,909)
Contributions – employee	-	264,372		( 264,372)
Net investment income	-	2,841,617		( 2,841,617)
Benefit payments, including refunds of employee contributions	( 1,181,627)	( 1,181,627)		-
Administrative expense	-	( 16,093)		16,093
Other changes	-	( 483)		483
Balances as of December 31, 2019	<u>\$22,554,531</u>	<u>\$20,784,413</u>		<u>\$1,770,118</u>

*Sensitivity Analysis*

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

	1% Decrease 5.75%	Current Discount Rate 6.75%	1% Increase 7.75%
Net pension liability	<u>\$4,809,919</u>	<u>\$1,770,118</u>	<u>( \$721,062 )</u>

*Pension Plan Fiduciary Net Position*

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

**THE CITY OF VERNON, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)**  
**SEPTEMBER 30, 2020**

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

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

For the year ended September 30, 2020, the City recognized pension expense of \$234,502.

At September 30, 2020, 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	\$ -	\$251,157
Differences in assumption changes	-	12,312
Net difference between projected and actual earnings	-	635,833
Contributions made subsequent to measurement date	<u>352,250</u>	-
<b>Total</b>	<b><u>\$352,250</u></b>	<b><u>\$899,302</u></b>

\$352,250 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, 2020. 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>	
2020	(\$383,781)
2021	( 257,078)
2022	61,172
2023	( 319,615)
<b>Total</b>	<b><u>(\$899,302)</u></b>

**11. DEFINED OTHER POSTEMPLOYMENT BENEFIT PLAN**

**A. Plan Description**

The City participates in a defined benefit group-term life insurance plan administered by the TMRS known as the Supplemental Death Benefits Fund (SDBF). The plan is administered as a single-employer plan. This is a voluntary program in which participating member cities may elect, by ordinance, to provide group-term life insurance coverage for their active members, including or not retirees. The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings for the 12-month period preceding the month of death). The death benefit for retirees is considered an other postemployment benefit (OPEB) and is a fixed amount of \$7,500. As the SDBF covers both active and retiree participants, with no segregation of assets, the SDBF is considered to be an unfunded OPEB plan (i.e. no assets are accumulated).

**THE CITY OF VERNON, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)**  
**SEPTEMBER 30, 2020**

**11. DEFINED OTHER POSTEMPLOYMENT BENEFIT PLAN (CONT'D.)**

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year. The intent is not to pre-fund retiree term life insurance during employees' entire careers.

**B. Benefits Provided**

The SDBF provides a death benefit for retirees which is considered an other postemployment benefit (OPEB) and is a fixed amount of \$7,500.

*Employees Covered by Benefit Terms*

At the December 31, 2019 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	58
Inactive employees entitled to but not yet receiving benefits	20
Active employees	88

**C. Total OPEB Liability**

The City's Total OPEB Liability is based on an actuarial valuation performed as of December 31, 2019 and a measurement date of December 31, 2019.

*Actuarial Assumptions*

1. General inflation – General inflation is assumed to be 2.5% per year.
2. Discount rates – Because the SDBF is considered to be an unfunded trust under GASB Statement No. 75, the relevant discount rate for calculating the Total OPEB liability is based on the Fidelity Index's "20-year Municipal GO AA Index" rate as of the measurement date.
3. Individual salary increases – Salary increases are assumed to occur once a year, on January 1. Therefore, the pay used for the period year following the valuation date is equal to the reported pay for the prior year, increased by the salary increase assumption. Salaries are assumed to increase on a graduated service-based scale ranging from 3.5% to 11.50%.
4. Termination rates – For the first 10 years of service, the base table rates vary by gender, entry age, and length of service. After 10 years of service, base termination rates vary by gender and by the number of years remaining until first retirement eligibility.
5. Forfeiture rates (withdrawal of member deposits from TMRS) – These rates for vested members vary by age and employer match, and they are expressed as a percentage of the termination rates.

**THE CITY OF VERNON, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)**  
**SEPTEMBER 30, 2020**

**11. DEFINED OTHER POSTEMPLOYMENT BENEFIT PLAN (CONT'D.)**

6. Service retirees and beneficiary mortality rates – For calculating the OPEB liability and the OPEB contribution rates, the Gender-distinct 2019 Municipal Retirees of Texas mortality tables. The rates are projected on a fully generational basis with scale UMP to account for future mortality improvements. Based on the size of the city, rates are multiplied by an additional factor of 100.0%.
7. Disabled annuitant mortality rates – For calculating the OPEB liability and the OPEB contribution rates, the mortality tables for healthy retirees is used with a 4-year set-forward for males and a 3-year set-forward for females. In addition, a 3.5% and 3% minimum mortality rate will be applied to reflect the impairment for younger members who become disabled for males and females, respectively. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.
8. Pre-retirement mortality - For calculating the OPEB liability and the OPEB contribution rates, the PLB(10) mortality tables, with the Public safety table used for males and the General Employee table used for females. The rates are projected on fully generational basis by Scale UMP to account for future mortality improvements.

*Changes in Total OPEB Liability*

	<u>Total OPEB Liability</u>
Balances as of December 31, 2018	<u>\$358,007</u>
<i>Changes for the year:</i>	
Service cost	10,953
Interest on total OPEB liability	13,387
Change in benefit terms	-
Difference between expected and actual experience	( 15,471)
Change in assumptions or other inputs	63,065
Benefit payments	( 5,287)
Net changes	<u>66,647</u>
Balances as of December 31, 2019	<u>\$424,654</u>

*Sensitivity Analysis*

The following presents the total OPEB liability of the City, calculated using the discount rate of 2.75%, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (1.75%) or 1 percentage point higher (3.75%) than the current rate.

**THE CITY OF VERNON, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)**  
**SEPTEMBER 30, 2020**

**11. DEFINED OTHER POSTEMPLOYMENT BENEFIT PLAN (CONT'D.)**

	1% Decrease <u>1.75%</u>	Current Discount Rate <u>2.75%</u>	1% Increase <u>3.75%</u>
Total OPEB liability	<u><b>\$504,300</b></u>	<u><b>\$424,654</b></u>	<u><b>\$363,051</b></u>

**D. OPEB Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB**

For the year ended September 30, 2020, the City recognized OPEB expense of \$32,091.

At September 30, 2020, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$22,163
Changes in assumptions	57,658	12,616
Contributions made subsequent to measurement date	<u>9,172</u>	-
Total	<u><b>\$66,830</b></u>	<u><b>\$34,779</b></u>

\$9,172 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability for the year ending September 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year Ended December 31:</u>	
2020	\$ 7,751
2021	5,207
2022	5,891
2023	<u>4,030</u>
<b>Total</b>	<b><u>\$22,879</u></b>

**12. 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 \$673,596 per year. The insurance provider pays amounts in excess of the aforementioned. Settled claims have not exceeded commercial insurance coverage as of September 30, 2020. Group life insurance premiums are also paid by the Employee Benefits Trust Fund. During the fiscal year ended September 30, 2020, \$828,628 was expended for health benefits, insurance

**THE CITY OF VERNON, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)**  
**SEPTEMBER 30, 2020**

**12. HEALTH CARE COVERAGE (CONT'D.)**

premiums and administrative costs. Charges and fees for the same period amounted to \$911,106, including \$585,862 from the General Fund, \$171,338 from the Enterprise Fund, \$144,839 from employee payroll deductions, \$9,067 from the BDC, and \$0 from terminated employees (COBRA). These amounts were recorded as current expenditures in the charged funds and component unit.

Both the General and Enterprise Funds and the BDC participate in the self-insurance program and make payments to the internal service fund based on estimates of the amounts needed to pay current and prior year claims and other expenses, and to establish a reserve for catastrophic losses. The estimates are derived from the City's historical cost experience. At September 30, 2020, the reserve was \$1,586,895.

The claims liability of \$90,372 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, 2019 and 2020 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, 2019	\$ 77,781	\$776,729	\$709,019	\$145,491
FYE September 30, 2020	\$ 145,491	\$828,628	\$883,747	\$ 90,372

**13. COMMITMENTS AND CONTINGENCIES**

**A. Litigation**

No reportable litigation was pending against the City at September 30, 2020.

**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, 2020**

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

**C. Construction Commitments**

The City is in the process of replacing a race-track rotor at the waste-water treatment plant. The City is in contract with one contractor and one engineering firm for the improvements. The total price of the contracts is \$568,672 while \$100,605 costs have been incurred leaving a remaining commitment of \$468,067 at September 30, 2020.

**14. 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.

**15. TAX ABATEMENT AGREEMENTS**

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

The Rhodia agreement is a ten-year abatement of its taxable mineral interest for 100% the first four years, 80% year five, 60% year six, 40% year seven, 30% year eight, 20% year nine, and 10% year ten. This is the seventh year of the agreement and the total value loss was \$2,769,600. The reduction in M&O taxes was \$11,422 and I&S taxes was \$4,218.

The Vernon Real Estate LLC agreement is a five-year abatement of taxable real and personal property for 100% the first year, 80% year two, 60% year three, 40% year four, and 20% year five. This is the fifth year of the agreement and the total value loss was \$546,450. The reduction in M&O taxes was \$2,254 and I&S taxes was \$832.

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

**THE CITY OF VERNON, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)**  
**SEPTEMBER 30, 2020**

**16. COVID-19 PANDEMIC**

Beginning in December 2019, a novel coronavirus, now designated SAR-CoV2 which causes the disease COVID-19 was declared a global pandemic by the World Health Organization. The symptoms of COVID-19 can range from severe illness and can cause complications including death. On March 13, 2020, the Governor of the State of Texas issued a proclamation certifying that COVID-19 poses an imminent threat of disaster in Texas and declared a state of disaster for all counties in Texas. A state of disaster requires that certain emergency protective measures be taken pursuant to the Texas Disaster Act of 1975 relating to Emergency Management and Public Health, pursuant to Chapter 418 of the Texas Government Code.

State and local governments placed restrictions on the operations of businesses and public gatherings to promote health and slow the spread of the virus. The federal government passed several appropriations to address the negative economic impact caused by these restrictions. The City received \$129,347 in federal grant awards during the year ended September 30, 2020 and anticipates receiving additional federal grant awards during the year ending September 30, 2021. However, the impact of the COVID-19 pandemic on the national, state, and local economies and, ultimately, the City's finances is not known at this time.

***REQUIRED SUPPLEMENTARY INFORMATION***

**EXHIBIT B-1**
**THE CITY OF VERNON, TEXAS**
**REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS  
TEXAS MUNICIPAL RETIREMENT SYSTEM**

	2014	2015	2016	2017	2018	2019
<b>Total Pension Liability</b>						
Service cost	\$ 628,498	\$ 572,998	\$ 522,433	\$ 492,155	\$ 506,345	\$ 542,719
Interest on total pension liability	1,529,732	1,358,771	1,382,533	1,407,208	1,424,443	1,460,532
Changes of benefit terms		(2,689,621) (1)				
Difference between expected and actual experience	(672,755)	(206,925)	(376,813)	(454,708)	(209,414)	(204,744)
Changes of assumptions	-	514,583	-	-	-	(19,307)
Benefit payments/refunds of contributions	(1,264,777)	(1,156,038)	(1,130,326)	(1,164,600)	(1,228,219)	(1,181,627)
<b>Net change in total pension liability</b>	<b>220,698</b>	<b>(1,606,232)</b>	<b>397,827</b>	<b>280,055</b>	<b>493,155</b>	<b>597,573</b>
<b>Total pension liability, beginning</b>	<b>22,171,455</b>	<b>22,392,153</b>	<b>20,785,921</b>	<b>21,183,748</b>	<b>21,463,803</b>	<b>21,956,958</b>
<b>Total pension liability, ending (a)</b>	<b>\$22,392,153</b>	<b>\$20,785,921</b>	<b>\$21,183,748</b>	<b>\$21,463,803</b>	<b>\$21,956,958</b>	<b>\$22,554,531</b>
<b>Fiduciary Net Position</b>						
Contributions - employer	\$ 734,220	\$ 687,295	\$ 426,631	\$ 436,406	\$ 450,044	\$ 453,909
Contributions - employee	286,327	261,472	255,558	250,552	252,631	264,372
Net investment income	939,988	25,252	1,142,644	2,436,928	(584,676)	2,841,617
Benefit payments/refunds of contributions	(1,264,777)	(1,156,038)	(1,130,326)	(1,164,600)	(1,228,219)	(1,181,627)
Administrative expenses	(9,814)	(15,383)	(12,913)	(12,641)	(11,315)	(16,093)
Other	(807)	(760)	(696)	(640)	(590)	(483)
<b>Net change in fiduciary net position</b>	<b>685,137</b>	<b>(198,162)</b>	<b>680,898</b>	<b>1,946,005</b>	<b>(1,122,125)</b>	<b>2,361,595</b>
<b>Fiduciary net position, beginning</b>	<b>16,430,966</b>	<b>17,116,103</b>	<b>16,917,941</b>	<b>17,598,839</b>	<b>19,544,844</b>	<b>18,422,719</b>
<b>Fiduciary net position, ending (b)</b>	<b>\$17,116,103</b>	<b>\$16,917,941</b>	<b>\$17,598,839</b>	<b>\$19,544,844</b>	<b>\$18,422,719</b>	<b>\$20,784,414</b>
<b>Net pension liability, ending = (a)-(b)</b>	<b>\$ 5,276,050</b>	<b>\$ 3,867,980</b>	<b>\$ 3,584,909</b>	<b>\$ 1,918,959</b>	<b>\$ 3,534,239</b>	<b>\$ 1,770,117</b>
<b>Fiduciary net position as a % of total pension liability</b>	<b>76.44%</b>	<b>81.39%</b>	<b>83.08%</b>	<b>91.06%</b>	<b>83.90%</b>	<b>92.15%</b>
<b>Covered employee payroll</b>	<b>\$ 4,090,382</b>	<b>\$ 3,735,319</b>	<b>\$ 3,650,828</b>	<b>\$ 3,579,312</b>	<b>\$ 3,609,017</b>	<b>\$ 3,776,749</b>
<b>Net pension liability as a % of covered payroll</b>	<b>128.99%</b>	<b>103.55%</b>	<b>98.19%</b>	<b>53.61%</b>	<b>97.93%</b>	<b>46.87%</b>

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 implemented.

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

## THE CITY OF VERNON, TEXAS

REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF CONTRIBUTIONS  
TEXAS MUNICIPAL RETIREMENT SYSTEM

	2015	2016	2017	2018	2019	2020
Actuarial determined contribution	\$ 712,711	\$ 494,331	\$ 440,815	\$ 460,283	\$ 450,714	\$ 467,393
Contributions in relation to the actuarially determined contribution	<u>(712,711)</u>	<u>(494,331)</u>	<u>(440,815)</u>	<u>(460,283)</u>	<u>(450,714)</u>	<u>(467,393)</u>
Contribution deficiency	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered employee payroll	<u>\$ 3,735,319</u>	<u>\$ 3,650,828</u>	<u>\$ 3,579,312</u>	<u>\$ 3,634,204</u>	<u>\$ 3,725,021</u>	<u>\$ 3,826,262</u>
Contributions as a percentage of covered employee payroll	<u>19.08%</u>	<u>13.54%</u>	<u>12.32%</u>	<u>12.67%</u>	<u>12.10%</u>	<u>12.22%</u>

**Valuation Date:**

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

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

Actuarial Cost Method      Entry Age Normal

Amortization Method      Level Percentage of Payroll, Closed

Remaining Amortization Period      26 years

Asset Valuation Method      10 Year smoothed market; 12% soft corridor

Inflation      2.50%

Salary Increases      3.50% to 11.50% including inflation

Investment Rate of Return      6.75%

Retirement Age      Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2019 valuation pursuant to an experience study of the period 2014-2018.

Mortality      Post-retirement: 2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP.

Pre-retirement: PUB(10) mortality tables, with the Public Safety table used for males and the General Employee table used for females. The rates are projected on a fully generational basis with scale UMP.

**Other Information:**

Notes      There were no benefit changes during the year.

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

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.

## THE CITY OF VERNON, TEXAS

**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS**  
**TEXAS MUNICIPAL RETIREMENT SYSTEM**

	2017	2018	2019
<b>Total OPEB Liability</b>			
Service cost	\$ 9,306	\$ 10,827	\$ 10,953
Interest on total OPEB liability	12,817	12,682	13,387
Changes of benefit terms	-	-	-
Difference between expected and actual experience	-	(18,224)	(15,471)
Changes of assumptions or other inputs	26,376	(22,472)	63,065
Benefit payments	(5,369)	(5,053)	(5,287)
<b>Net change in total pension liability</b>	<b>43,130</b>	<b>(22,240)</b>	<b>66,647</b>
 Total OPEB liability, beginning	 337,117	 380,247	 358,007
<b>Total OPEB liability, ending</b>	<b>\$ 380,247</b>	<b>\$ 358,007</b>	<b>\$ 424,654</b>
 Covered payroll	 \$ 3,579,312	 \$ 3,609,017	 \$ 3,776,749
 Total OPEB liability as a % of covered payroll	 10.62%	 9.92%	 11.24%

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 75, they should not be shown here. Therefore, we have shown only years for which the new GASB statements have been implemented.