

THE CITY OF VERNON, TEXAS

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2016

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ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2016

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EDGIN, PARKMAN, FLEMING & FLEMING, PC

CERTIFIED PUBLIC ACCOUNTANTS

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Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Vernon, Texas (City) as of and for the year ended September 30, 2016, 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, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Edgin, Parkman, Fleming & Fleming, PC

EDGIN, PARKMAN, FLEMING & FLEMING, PC

Wichita Falls, Texas
March 1, 2017

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, 2016. 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 in flows of resources at the close of the most recent fiscal year by \$21,880,791 (net position). Of this amount, \$1,814,960 (unrestricted net position) may be used to meet the City's obligations.
- During the year, the City's total net position increased by \$5,157,334.
- The governmental funds reported a fund balance this year of \$4,165,674, which is an increase of \$186,538 in comparison with the prior year amount of \$3,979,136 or 4.7%. Of this total fund balance, \$381,998 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 \$381,998. \$3,783,676 of the total Governmental Funds fund balances are either restricted, committed or nonspendable.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

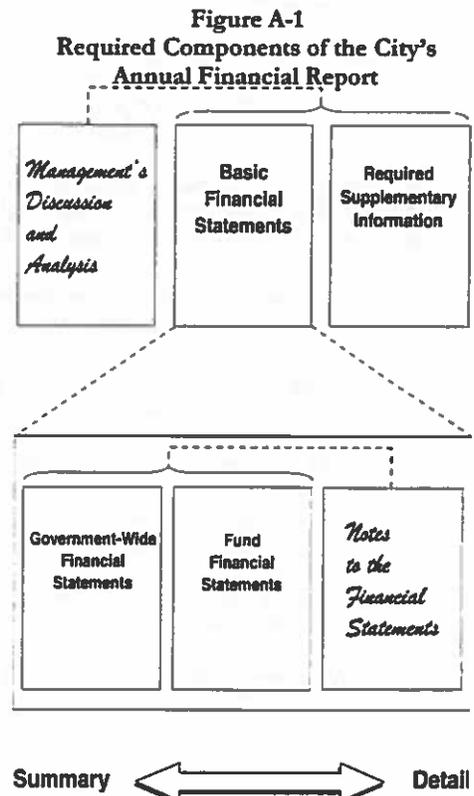


Figure A-2 summarizes the major features of the City's financial statements, including the portion of the City's government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each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

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

<i>Type of Statements</i>	Fund Statements		
	Government-wide	Governmental Funds	Proprietary Funds
<i>Scope</i>	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
<i>Required financial statements</i>	<ul style="list-style-type: none"> • Statement of net position • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures & changes in fund balances 	<ul style="list-style-type: none"> • Statement of net position • Statement of revenues, expenses, and changes in net position • Statement of cash flows
<i>Accounting basis and measurement focus</i>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
<i>Type of asset/liability information</i>	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter, no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term
<i>Type of inflow/outflow information</i>	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid

Government-wide Statements

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

The two government-wide statements report the City's net position and how they have changed. Net position—the difference between the City's assets, 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 \$21,880,791 at September 30, 2016. (See Table A-1)

Table A-1
City's Net Position

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$ 6,287,451	\$ 5,907,815	\$ 3,114,049	\$ 1,260,914	\$ 9,401,500	\$ 7,168,729
Capital assets, net	8,431,854	6,657,520	17,848,910	18,482,484	24,280,764	25,140,004
Total assets	12,719,305	12,565,335	20,962,959	19,743,398	33,682,264	32,308,733
Deferred Outflows of Resources						
Related to Pension Plan	1,391,222	561,152	378,330	138,193	1,769,552	699,345
Deferred loss on refunding debt	-	-	275,061	-	275,061	-
Total Deferred outflows of resources	1,391,222	561,152	653,391	138,193	2,044,613	699,345
Current and other liabilities	1,338,473	1,039,918	1,193,882	1,590,999	2,532,355	2,630,917
Long-term liabilities	4,536,212	6,371,806	6,328,369	6,797,393	10,864,581	13,169,199
Total liabilities	5,874,685	7,411,724	7,522,251	8,388,392	13,396,936	15,800,116
Deferred Inflows of Resources						
Related to Pension Plan	353,122	389,482	96,028	95,672	449,150	485,154
Net assets						
Net Investment in Capital Assets	4,311,134	4,316,877	11,814,579	11,576,869	15,925,713	15,893,746
Restricted	3,592,862	3,572,122	547,258	262,689	4,140,118	3,834,811
Unrestricted	(21,276)	(2,563,718)	1,836,236	(442,031)	1,814,960	(3,005,749)
Total net assets	\$ 7,882,720	\$ 5,325,281	\$ 13,998,071	\$ 11,397,527	\$ 21,880,791	\$ 16,722,808

The \$1,814,960 of unrestricted net position at September 30, 2016 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 \$14,094,949. A significant portion, 66%, of the City's revenue comes from charges for services. (See Figure A-3.) 2% comes from operating and capital grants and contributions, 8% comes from sales taxes, 16% from property taxes and 4% from franchise fees. Other minor categories combined make up 4% of the City's total revenues.

The total cost of all programs and services was \$8,937,615, 53% of these costs are for water, sewer and sanitation related expenses. The City's expenses cover a range of services, with 24% related to public safety, 5% for public works, 5% for cemetery, 1% for Economic Development and Other, 5% for Subsidies, Donations and other, and 5% general government. (See Figure A-4.)

Figure A-3
Source of Revenue for Fiscal Year 2016

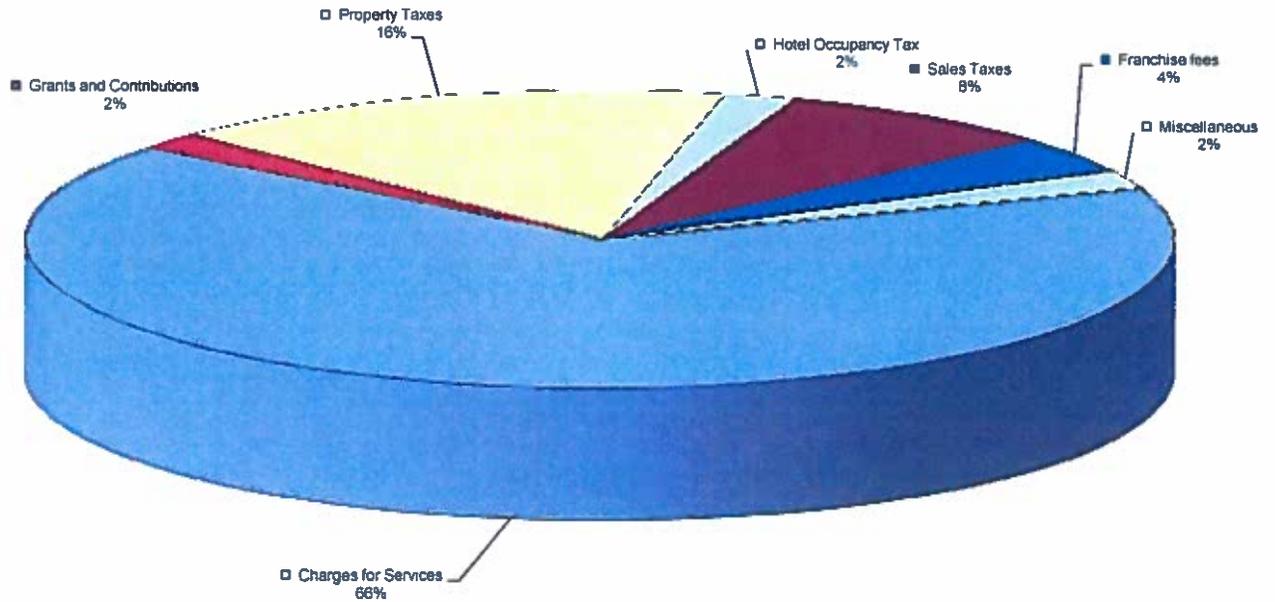
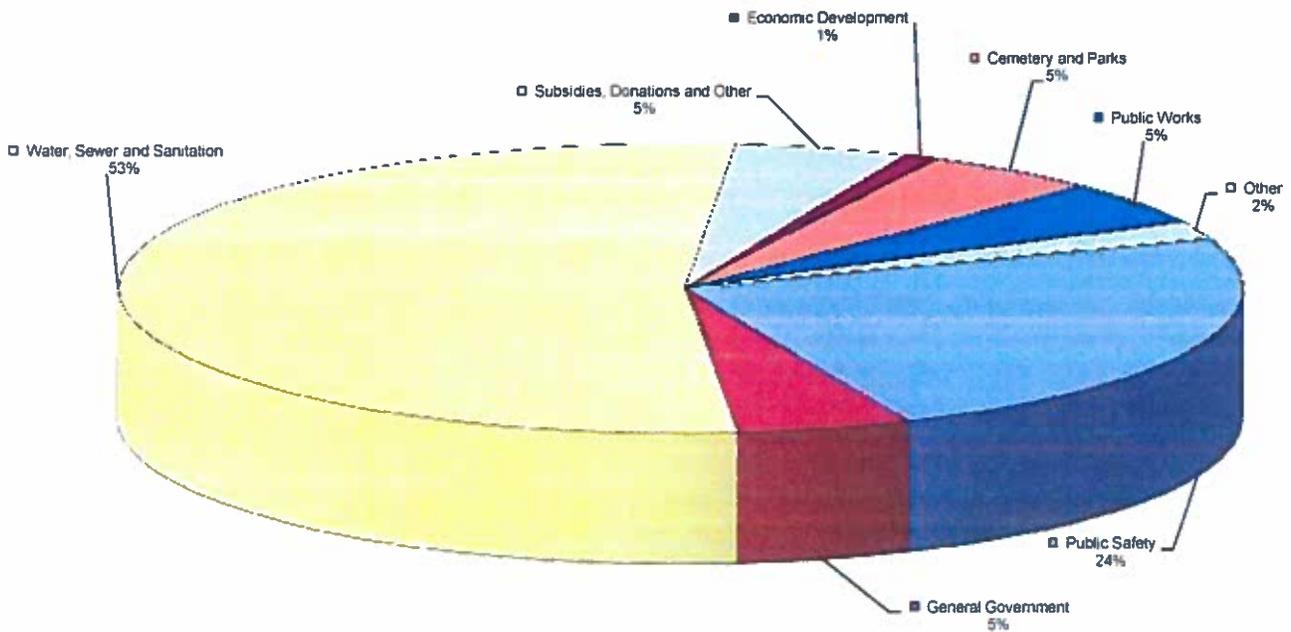


Figure A-4
Functional Expense for Fiscal Year 2016



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	
	2016	2015	2016	2015	2016	2015
Revenues						
Program revenues						
Charges for services	\$ 1,452,232	\$ 1,437,293	\$ 7,831,309	\$ 7,591,177	\$ 9,283,541	\$ 9,028,470
Operating and capital grants	233,124	162,685	-	-	233,124	162,685
Capital Grants and Contributions	38,873	701,659	-	-	38,873	701,659
General revenues						
Property taxes	2,232,927	1,454,478	-	-	2,232,927	1,454,478
Sales taxes	1,166,866	1,192,938	-	-	1,166,866	1,192,938
Franchise fees	546,074	720,439	-	-	546,074	720,439
Other taxes	333,853	308,253	-	-	333,853	308,253
Investment earnings	60,226	38,762	16,593	6,514	76,819	45,276
Miscellaneous	125,698	63,872	57,174	47,940	182,872	111,812
Total revenues	<u>6,189,873</u>	<u>6,080,379</u>	<u>7,905,076</u>	<u>7,645,631</u>	<u>14,094,949</u>	<u>13,726,010</u>
Expenses						
General government	443,555	869,629	-	-	443,555	869,629
Public safety	2,073,905	3,744,903	-	-	2,073,905	3,744,903
Public works	474,346	616,429	-	-	474,346	616,429
Cemetery and Parks	396,653	513,620	-	-	396,653	513,620
Subsidies, donations, and other	442,607	440,905	-	-	442,607	440,905
Christmas decorations	4,673	4,909	-	-	4,673	4,909
Civic and cultural	284,454	171,947	-	-	284,454	171,947
Economic development	113,104	75,108	-	-	113,104	75,108
Interest	66,642	91,520	-	-	66,642	91,520
Water, sewer and sanitation	57,177		4,580,499	4,902,542	4,637,676	4,902,542
Total expenses	<u>4,357,116</u>	<u>6,528,970</u>	<u>4,580,499</u>	<u>4,902,542</u>	<u>8,937,615</u>	<u>11,431,512</u>
Transfers	724,033	1,194,721	(724,033)	(1,194,721)	-	-
Change in net position	<u>2,556,790</u>	<u>746,130</u>	<u>2,600,544</u>	<u>1,548,368</u>	<u>5,157,334</u>	<u>2,294,498</u>
Net position - beginning (as originally stated)	5,325,930	8,733,845	11,397,527	10,896,103	16,723,457	19,629,948
Prior period adjustment	-	(4,154,694)	-	(1,046,944)	-	(5,201,638)
Net position - beginning (as restated)	<u>5,325,930</u>	<u>4,579,151</u>	<u>11,397,527</u>	<u>9,849,159</u>	<u>16,723,457</u>	<u>14,428,310</u>
Net position - ending	<u>\$ 7,882,720</u>	<u>\$ 5,325,281</u>	<u>\$ 13,998,071</u>	<u>\$ 11,397,527</u>	<u>\$ 21,880,791</u>	<u>\$ 16,722,808</u>

The most significant fluctuation between years relates to the following:

- Charges for Services increased by \$255,071, which is due to rate increases.
- Capital Grants and Contributions decreased \$662,786 due to two Community Development Block Grants and the donation of a commercial building occurring in 2015.
- Franchise Fees decreased by \$174,365 due to the change in deferred inflows related to the receivable and two large payors fees decreasing in 2016.
- Expenses decreased overall by \$2,493,897 due to a negative pension cost, continued personnel and other spending cuts, and lower fuel prices.

Table A-3 presents the cost of each of the City's largest functions as well as each function's net cost (total cost less fees generated by the activities and intergovernmental aid). The net cost reflects what was funded by state revenues as well as local tax dollars.

- The cost of all *governmental* activities this year was \$4,357,116; however, the amount that our taxpayers paid for these activities through property taxes was \$2,232,927.
- Some of the cost was paid by those who directly benefited from the programs through charges for services of \$1,452,232.

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

	Total Cost of Services		Net Cost of Services	
	2016	2015	2016	2015
General government	\$ 443,555	\$ 869,629	\$ 303,195	\$ 686,684
Public safety	2,073,905	3,744,903	781,232	2,579,129
Public works	474,346	616,429	441,653	(19,211)
Cemetery and parks	396,653	513,620	166,239	350,564
Economic development	113,104	75,108	113,104	75,108
Subsidies, donations and other	442,607	440,905	420,316	292,812
Christmas decorations	4,673	4,909	(1,125)	(1,220)
Civic and cultural	284,454	171,947	284,454	171,947

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Revenues from governmental funds totaled \$6,159,494, an increase of \$243,815 or 4%. The largest increase was an increase in Property taxes of \$744,959 or 51%. Grants and donations decreased \$592,347 or 69%.

Expenditures from governmental funds totaled \$6,463,116, a decrease of \$439,608 or 6%. The largest decrease was in Capital Outlay, a decrease of \$467,261 or 77%. The second largest decrease was in Public Safety, which was a decrease of \$223,601 or 7%. This was mostly due to having two less full-time employees. Transfers to the general fund decreased by \$37,426 or 3%.

General Fund Budgetary Highlights

During the prior year, the City revised its budget by undertaking a system-wide dramatic cost restructuring approach. The austerity plan remained in effect and delivered dramatic positive financial results. Cash flow greatly improved due to increases in utility rates, lowered retirement contribution rate to TMRS (Texas Municipal Retirement System), and continued operational expenditure deferrals including street maintenance and sewer plant renovation needs. Prior year staff reductions were also held in place.

Franchise revenue declined with less heating gas sold in prior year's winter. Court revenue was down because Police and Code Enforcement issued fewer tickets due to significantly higher local compliance with laws and less officers due to prior year layoffs. Sales Tax declined slightly, mostly due to energy interests contracting that utilize local businesses when traveling. Statewide drought continued to negatively affect City and drought water usage restrictions remained in effect. While usage declined, revenue increased due to strong minimum monthly bill rates to more align fixed costs to fixed revenues.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At September 30, 2016, the City had invested in a broad range of capital assets totaling \$24,280,764, 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	
	2016	2015	2016	2015	2016	2015
Land	\$ 981,029	\$ 981,029	\$ 721,690	\$ 721,690	\$ 1,702,719	\$ 1,702,719
Buildings and improvements	1,465,713	1,487,105	16,813,053	17,442,300	18,278,766	18,929,405
Infrastructure	2,596,470	2,654,248	-	-	2,596,470	2,654,248
Equipment, furniture, fixtures	651,900	680,824	304,350	295,555	956,250	976,379
Vehicles	736,742	854,314	9,817	22,939	746,559	877,253
Total net assets	\$6,431,854	\$6,657,520	\$ 17,848,910	\$ 18,482,484	\$ 24,280,764	\$ 25,140,004

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

For the City's fiscal year 2017, the City plans capital additions including:

GENERAL

Ambulance chassis and rebuild	\$ 110,000
Street department pickup	34,000
Cemetery mower	23,000
Parks mower	14,000
Community development mower	6,000
Total	\$ 187,000

ENTERPRISE

Water pickup truck	\$ 36,000
Water trailer & jackhammer	15,000
Water sourcing/infrastructure	314,000
Pre-Engineering for main water line project	114,000
Bulk water purchases	125,000
New environmental regulations and testing - discharge permit	10,000
Upgrades to water production (Booster Station)	31,800
Nitrate valve upgrades	48,000
Water transmission line (Partial)	69,000
Total	\$ 762,800

Long-term Obligations

At September 30, 2016, the City had \$8,725,948 in bonds, compensated absences, and leases outstanding as shown in Table A-5. More detailed information about the City's long-term obligations is presented in the notes to the financial statements.

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

Table A-5
Long-term Obligations

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Certificates of Obligation	\$ 1,155,162	\$ 1,175,000	\$ -	\$ -	\$ 1,155,162	\$ 1,175,000
Capital Leases	460,566	618,671	8,548	16,918	469,114	635,589
Notes payable	504,992	546,972	180,160	216,812	685,152	763,784
Compensated absences	282,526	257,040	88,370	79,006	370,896	336,046
Revenue Bonds	-	-	6,045,624	6,671,885	6,045,624	6,671,885
Total	\$ 2,403,246	\$ 2,597,683	\$ 6,322,702	\$ 6,984,621	\$ 8,725,948	\$ 9,582,304

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Increases/Decreases in Revenue

In the General Fund, total budgeted revenues decreased by \$53,905. The largest decrease was the budgeted Court Tax with a \$49,500 decrease or 58%. Property tax revenue budgeted for 2017 was the same amount as budgeted for 2016. The 2016 rate is \$0.38721 per \$100 of taxable property value for Maintenance and Operation and \$.17750 for Interest and Sinking Fund. Combined, the rate is above the effective tax rate.

In the Debt Service Fund, the 2016 tax rate is \$.17750 per \$100 of taxable property value. The total amount of municipal debt secured by property taxes is \$665,480.

No increases or decreases in budgeted revenues were approved in Water and Sewer.

Decreases/Increases in Expenditures

General Fund expenditures were increased by \$457,759 or 8.0% from the actual 2016 expenditures.

Debt Service Fund expenditures increased \$8,535 or 9%.

In the Enterprise Fund, expenses were increased by 29% from 2016 actual expenditures. The majority of the 2017 increase is due to a one time decrease of retirement cost reported in 2016 and the 2017 capital additions listed on the previous page.

The adopted budget shows an increase of \$419,200 in General Fund Balance and \$715,855 in the Utility (Enterprise) Fund for a total, if realized, of a \$1,135,055 increase in the City's net position for fiscal year ending 2017.

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, 2016

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents	\$ 4,042,499	\$ 2,727,778	\$ 6,770,277	\$ 733,786
Receivables:				
Due from primary government	-	-	-	100,749
Customers (net)	-	650,081	650,081	-
Ambulance (net)	417,192	-	417,192	-
Property taxes (net)	152,146	11	152,157	-
Sales taxes	299,370	-	299,370	-
Hotel occupancy taxes	37,049	-	37,049	-
Franchise fees	204,351	-	204,351	-
Grants	36,855	-	36,855	-
Other	131,721	-	131,721	-
Internal balances	814,467	(814,467)	-	-
Other assets	16,058	450	16,508	-
Assets held for sale	78,130	-	78,130	422,246
Restricted assets:				
Cash and cash equivalents	57,613	550,196	607,809	-
Capital assets not being depreciated	981,029	721,690	1,702,719	110,336
Capital assets being depreciated (net)	5,450,825	17,127,220	22,578,045	401,660
Total assets	12,719,305	20,962,959	33,682,264	1,768,777
Deferred Outflows of Resources				
Pension plan related	1,391,222	378,330	1,769,552	-
Deferred loss on refunding debt	-	275,061	275,061	-
Total deferred outflows of resources	1,391,222	653,391	2,044,613	-
Liabilities				
Accounts payable	315,627	168,877	484,504	-
Taxes payable	928	6,403	7,331	-
Due to component unit	100,749	-	100,749	-
Due to others	1,403	-	1,403	-
Accrued interest payable	11,726	11,611	23,337	-
Customer deposits	-	185,685	185,685	-
Long-term liabilities:				
Portion due or payable within one year	908,040	821,306	1,729,346	137,042
Portion due or payable after one year	1,495,206	5,501,395	6,996,601	1,465,686
Net pension liability	3,041,006	826,974	3,867,980	-
Total liabilities	5,874,685	7,522,251	13,396,936	1,602,728
Deferred Inflows of Resources				
Pension plan related	353,122	96,028	449,150	-
Net Position				
Net investment in capital assets	4,311,134	11,614,579	15,925,713	511,996
Restricted	3,592,862	547,256	4,140,118	-
Unrestricted	(21,276)	1,836,236	1,814,960	(345,947)
Total net position	\$ 7,882,720	\$ 13,998,071	\$ 21,880,791	\$ 166,049

See accompanying notes to the basic financial statements.

THE CITY OF VERNON, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2016

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 443,555	\$ 129,417	\$ 10,943	\$ -
Public safety	2,073,905	1,095,740	181,888	15,045
Public works	474,346	32,693	-	-
Cemetery and parks	396,653	172,091	34,495	23,828
Subsidies, donations and other	442,607	22,291	-	-
Christmas decorations	4,673	-	5,798	-
Civic and cultural	284,454	-	-	-
Economic development	113,104	-	-	-
Interest expense	66,642	-	-	-
Bond issuance costs	57,177	-	-	-
Total governmental activities	<u>4,357,116</u>	<u>1,452,232</u>	<u>233,124</u>	<u>38,873</u>
Business-type activities:				
Water	1,737,721	3,805,507	-	-
Sewer	1,077,978	2,347,293	-	-
Sanitation	1,511,186	1,516,006	-	-
Other	253,614	162,503	-	-
Total business-type activities	<u>4,580,499</u>	<u>7,831,309</u>	<u>-</u>	<u>-</u>
Total primary government	<u>\$ 8,937,615</u>	<u>\$ 9,283,541</u>	<u>\$ 233,124</u>	<u>\$ 38,873</u>
Component unit:				
Business Development Corporation of Vernon	<u>\$ 353,157</u>	<u>\$ 4,000</u>	<u>\$ 475,000</u>	<u>\$ -</u>
General revenues and transfers:				
Taxes:				
Property taxes, levied for general purposes				
Property taxes, levied for debt service purposes				
Franchise fees				
Sales taxes				
Hotel occupancy taxes				
Other taxes				
Interest earnings				
Miscellaneous				
Transfers				
Total general revenues and transfers				
Change in net position				
Net position - beginning				
Net position - ending				

See accompanying notes to the basic financial statements.

Net (Expense) Revenue and Changes in Net Position

Primary Government			
Governmental Activities	Business-type Activities	Total	Component Unit
\$ (303,195)	\$ -	\$ (303,195)	\$ -
(781,232)	-	(781,232)	-
(441,653)	-	(441,653)	-
(166,239)	-	(166,239)	-
(420,316)	-	(420,316)	-
1,125	-	1,125	-
(284,454)	-	(284,454)	-
(113,104)	-	(113,104)	-
(66,642)	-	(66,642)	-
(57,177)	-	(57,177)	-
<u>(2,632,887)</u>	<u>-</u>	<u>(2,632,887)</u>	<u>-</u>
-	2,067,786	2,067,786	-
-	1,269,315	1,269,315	-
-	4,820	4,820	-
-	(91,111)	(91,111)	-
-	3,250,810	3,250,810	-
<u>(2,632,887)</u>	<u>3,250,810</u>	<u>617,923</u>	<u>-</u>
-	-	-	125,843
1,531,366	-	1,531,366	-
701,561	-	701,561	-
546,074	-	546,074	-
1,166,866	-	1,166,866	583,433
327,877	-	327,877	-
5,976	-	5,976	-
60,226	16,593	76,819	1,666
125,698	57,174	182,872	13,530
724,033	(724,033)	-	-
<u>5,189,677</u>	<u>(650,266)</u>	<u>4,539,411</u>	<u>598,629</u>
2,556,790	2,600,544	5,157,334	724,472
<u>5,325,930</u>	<u>11,397,527</u>	<u>16,723,457</u>	<u>(558,423)</u>
<u>\$ 7,882,720</u>	<u>\$ 13,998,071</u>	<u>\$ 21,880,791</u>	<u>\$ 166,049</u>

THE CITY OF VERNON, TEXAS
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2016

	General	Debt Service Fund	Electric Trust Principal	Other Governmental	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ 251,796	\$ 46,406	\$ 2,851,998	\$ 545,419	\$ 3,695,619
Receivables:					
Ambulance (net)	417,192	-	-	-	417,192
Property taxes (net)	126,034	26,112	-	-	152,146
Sales taxes	299,370	-	-	-	299,370
Franchise fees	60,242	-	-	-	60,242
Hotel occupancy taxes	-	-	-	37,049	37,049
Grants	-	-	-	36,855	36,855
Other	125,332	-	-	-	125,332
Due from other funds	38,961	-	-	688	39,649
Assets held for sale	78,130	-	-	-	78,130
Other assets	16,058	-	-	-	16,058
Restricted assets:					
Cash and cash equivalents	57,613	-	-	-	57,613
Total assets	<u>\$ 1,470,728</u>	<u>\$ 72,518</u>	<u>\$ 2,851,998</u>	<u>\$ 620,011</u>	<u>\$ 5,015,255</u>
Liabilities, deferred inflows of resources, and fund balances					
Liabilities:					
Accounts payable	\$ 213,891	\$ -	\$ -	\$ 6,946	\$ 220,837
Taxes payable	928	-	-	-	928
Due to other funds	3,740	-	-	35,964	39,704
Due to component unit	100,749	-	-	-	100,749
Due to others	-	-	-	1,403	1,403
Total liabilities	<u>319,308</u>	<u>-</u>	<u>-</u>	<u>44,313</u>	<u>363,621</u>
Deferred inflows of resources:					
Unavailable revenues	<u>462,186</u>	<u>23,774</u>	<u>-</u>	<u>-</u>	<u>485,960</u>
Fund balances:					
Nonspendable	94,188	-	-	-	94,188
Restricted	116,422	48,744	2,851,998	575,698	3,592,862
Committed	96,626	-	-	-	96,626
Unassigned	381,998	-	-	-	381,998
Total fund balances	<u>689,234</u>	<u>48,744</u>	<u>2,851,998</u>	<u>575,698</u>	<u>4,165,674</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 1,470,728</u>	<u>\$ 72,518</u>	<u>\$ 2,851,998</u>	<u>\$ 620,011</u>	<u>\$ 5,015,255</u>

See accompanying notes to the basic financial statements.

THE CITY OF VERNON, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2016

Total fund balances - governmental funds (Exhibit A-3)		\$ 4,165,674
Amounts reported for <i>governmental activities</i> in the Statement of Net Position (Exhibit A-1) are different because:		
Capital assets used in governmental activities are not financial resources and therefore not reported in the funds. Capital assets at year-end consist of:		
Gross capital assets	\$ 10,565,393	
Related accumulated depreciation	<u>4,133,539</u>	6,431,854
Property taxes receivable are not available to pay for current period expenditures and therefore are deferred inflows of resources in the funds.		138,672
Ambulance fees receivable are not available to pay for current period expenditures and therefore are deferred inflows of resources in the funds.		347,288
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.		144,109
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, including premiums	1,155,162	
Capital leases	460,566	
Notes payable	504,992	
Compensated absences	<u>282,526</u>	(2,403,246)
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:		(11,726)
The City's net pension liability and related deferred outflows and inflows related to its participation in the Texas Municipal Retirement System do not meet criteria to be reported in the governmental funds financial statements. These items consist of:		
Deferred outflows of resources - pension plan related	1,391,222	
Net pension liability	(3,041,006)	
Deferred inflows of resources - pension plan related	<u>(353,122)</u>	(2,002,906)
The assets and liabilities of the internal service funds are included in the governmental activities in the Statement of Net Position.		<u>1,073,001</u>
Total net position - governmental activities (Exhibit A-1)		<u><u>\$ 7,882,720</u></u>

See accompanying notes to the basic financial statements.

THE CITY OF VERNON, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2016

	General	Debt Service	Electric Trust Principal	Other Governmental	Total Governmental Funds
Revenues					
Property taxes	\$ 1,516,611	\$ 677,787	\$ -	\$ -	\$ 2,194,398
Franchise fees	596,417	-	-	-	596,417
Sales taxes	1,166,866	-	-	-	1,166,866
Hotel occupancy taxes	-	-	-	327,877	327,877
Other taxes	5,976	-	-	-	5,976
Licenses and permits	8,637	-	-	-	8,637
Cemetery income	58,850	-	-	-	58,850
Contracts	157,716	-	-	-	157,716
Swimming pool	85,696	-	-	-	85,696
Ambulance service	783,060	-	-	-	783,060
Administrative charges to other funds	276,992	-	-	-	276,992
Fines and fees	74,137	-	-	5,063	79,200
Grants and donations	450	-	-	271,547	271,997
Investment earnings	3,387	2,606	18,568	3,351	27,912
Other revenues	111,068	3,803	-	3,029	117,900
Total revenues	<u>4,845,863</u>	<u>684,196</u>	<u>18,568</u>	<u>610,867</u>	<u>6,159,494</u>
Expenditures					
General government	806,712	-	-	12,009	818,721
Public safety	2,978,947	-	-	197,041	3,175,988
Public works	628,838	-	-	-	628,838
Cemetery and parks	495,358	-	-	315	495,673
Subsidies, donations and other	442,607	-	-	-	442,607
Christmas decorations	-	-	-	4,673	4,673
Civic and cultural	-	-	-	284,454	284,454
Economic development	-	-	-	113,104	113,104
Capital outlay	75,745	-	-	63,873	139,618
Debt service:					
Principal	200,085	55,000	-	-	255,085
Interest charges	42,240	28,286	-	-	70,526
Bond issuance costs	-	33,829	-	-	33,829
Total expenditures	<u>5,670,532</u>	<u>117,115</u>	<u>-</u>	<u>675,469</u>	<u>6,463,116</u>
Excess of revenues over (under) expenditures	<u>(824,669)</u>	<u>567,081</u>	<u>18,568</u>	<u>(64,602)</u>	<u>(303,622)</u>
Other Financing Sources (Uses)					
Proceeds from refunding bonds issued	-	1,025,000	-	-	1,025,000
Premium on refunding bonds issued	-	130,820	-	-	130,820
Payment to bond refunding escrow agent	-	(1,143,348)	-	-	(1,143,348)
Proceeds from sale of capital assets	7,798	-	-	-	7,798
Proceeds from sale of perpetual care spaces	-	-	-	1,940	1,940
Transfers in	1,223,044	3,613	-	83,654	1,310,311
Transfers out	(255,967)	(534,422)	(13,951)	(38,021)	(842,361)
Total other financing sources (uses)	<u>974,875</u>	<u>(518,337)</u>	<u>(13,951)</u>	<u>47,573</u>	<u>490,160</u>
Net change in fund balance	150,206	48,744	4,617	(17,029)	186,538
Fund balances - beginning	<u>539,028</u>	<u>-</u>	<u>2,847,381</u>	<u>592,727</u>	<u>3,979,136</u>
Fund balances - ending	<u>\$ 689,234</u>	<u>\$ 48,744</u>	<u>\$ 2,851,998</u>	<u>\$ 575,698</u>	<u>\$ 4,165,674</u>

See accompanying notes to the basic financial statements.

THE CITY OF VERNON, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2016

Net change in fund balances - total governmental funds (Exhibit A-5)	\$	186,538
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	\$ 139,618	
Depreciation expense for the year	<u>365,284</u>	(225,666)
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	38,529	
Ambulance fees	141	
Franchise fees	<u>(50,343)</u>	(11,673)
Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. Principal payments during the year were:		
Certificate of obligation	55,000	
Note payable	41,980	
Capital leases payable	<u>158,105</u>	255,085
Accrued interest payable from the beginning of the year to the end of the year changed by:		3,226
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:		(25,486)
Issuance of bonds were issued to refund existing debt to obtain long-term debt service savings. The following was the net results of the current year refunding that were reclassified for government-wide purposes:		
Refunding bond issued - par value	(1,025,000)	
Refunding bond issued - premium	(130,820)	
Payments to escrow account, less bond issuance costs	<u>1,120,000</u>	(35,820)
The amortization of the bond premium for the year was:		658
The City participates in an agent multiple-employer defined benefit pension plan. Contributions to the plan are expenditures at the fund level when payments are due. At the government-wide level, pension expenses are recognized on an actuarial basis. Payments exceeded the actuarial expense in the current year.		2,061,037
The internal service funds' activities related to the General Fund are included in the Statement of Activities of the governmental activities.		<u>348,891</u>
Change in net position of governmental activities (Exhibit A-2)	\$	<u><u>2,556,790</u></u>

See accompanying notes to the basic financial statements.

THE CITY OF VERNON, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2016

	Enterprise Fund	Internal Service Funds
	Utility Fund	
Assets		
Current assets:		
Cash and cash equivalents	\$ 2,727,778	\$ 346,880
Receivables:		
Customers (net)	650,081	-
Property taxes (net)	11	-
Due from other funds	3,740	-
Other assets	450	7,622
Note receivable, current portion	-	86,537
Restricted assets:		
Cash and cash equivalents	550,196	-
Total current assets	<u>3,932,256</u>	<u>441,039</u>
Long-term assets:		
Note receivable, net of current portion	-	784,126
Capital assets not being depreciated	721,690	-
Capital assets being depreciated (net)	17,127,220	-
Total long-term assets	<u>17,848,910</u>	<u>784,126</u>
Total assets	<u>21,781,166</u>	<u>1,225,165</u>
Deferred Outflows of Resources:		
Pension plan related	378,330	-
Deferred loss on refunding debt	275,061	-
Total deferred outflows of resources	<u>653,391</u>	<u>-</u>
Liabilities		
Current liabilities:		
Accounts payable	168,877	94,790
Taxes payable	6,403	-
Due to other funds	3,685	-
Accrued interest payable	12,844	-
Customer deposits	185,685	-
Current maturities of long-term obligations	907,843	-
Total current liabilities	<u>1,285,337</u>	<u>94,790</u>
Long-term liabilities:		
Long-term obligations, less current maturities	6,285,521	-
Net pension liability	826,974	-
Total long-term liabilities	<u>7,112,495</u>	<u>-</u>
Total liabilities	<u>8,397,832</u>	<u>94,790</u>
Deferred Inflows of Resources:		
Pension plan related	96,028	-
Net Position		
Net investment in capital assets	11,614,579	-
Restricted	547,256	-
Unrestricted	1,778,862	1,130,375
Total net position	<u>13,940,697</u>	<u>\$ 1,130,375</u>
Reconciliation to government-wide statement of net position:		
Adjustment to reflect the consolidation of the Internal Service Funds' activities related to the Enterprise Fund	57,374	
Net position of business-type activities	<u>\$ 13,998,071</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, 2016

	Enterprise Fund	Internal Service Funds
	Utility Fund	
Operating revenues:		
Water revenues	\$ 3,781,959	\$ -
Sewer revenues	2,347,293	-
Sanitation revenues	1,516,006	-
Charges and fees	-	962,317
Late fees	142,960	-
Other revenues	53,051	-
Total operating revenues	<u>7,841,269</u>	<u>962,317</u>
Operating expenses:		
Billing and collection	186,261	-
Water	1,121,168	-
Sewer	601,662	-
Sanitation	1,449,277	-
Insurance claims and related	-	884,317
Bad debts	131,782	-
Depreciation	693,356	-
Other operating expenses	121,832	-
Total operating expenses	<u>4,305,338</u>	<u>884,317</u>
Operating income	<u>3,535,931</u>	<u>78,000</u>
Nonoperating revenues (expenses):		
Interest income	16,593	32,314
Rent income	23,548	-
Bad debt recoveries	19,543	-
Gain on sale of capital assets	4,122	-
Interest expense	(292,667)	-
Total nonoperating revenues (expenses)	<u>(228,861)</u>	<u>32,314</u>
Income before transfers	<u>3,307,070</u>	<u>110,314</u>
Transfers in	543,248	256,083
Transfers out	(1,267,281)	-
Net transfers	<u>(724,033)</u>	<u>256,083</u>
Change in net position	2,583,037	366,397
Net position - beginning	<u>11,357,659</u>	<u>763,978</u>
Net position - ending	13,940,696	<u>\$ 1,130,375</u>
Reconciliation to government-wide statement of activities:		
Adjustment to reflect the consolidation of the Internal Service		
Fund's activities related to the Enterprise Fund	17,506	
Change in net position of the business-type activities	<u>\$ 2,600,543</u>	

See accompanying notes to the basic financial statements.

THE CITY OF VERNON, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
SEPTEMBER 30, 2016

	Enterprise Fund	Internal Service Funds
	Utility Fund	
Cash flows from operating activities:		
Received from customers	\$ 7,831,983	\$ 962,317
Payments to suppliers	(3,310,786)	-
Payments to employees	(750,852)	-
Payments to claimants/beneficiaries	-	(1,095,138)
Net cash provided (used) by operating activities	<u>3,770,345</u>	<u>(132,821)</u>
Cash flows from noncapital financing activities:		
Change in customer deposits	7,615	-
Bad debt recoveries	19,543	-
Transfers from other funds	543,248	256,083
Transfers to other funds	(1,267,281)	-
Net cash provided (used) by noncapital financing activities	<u>(696,875)</u>	<u>256,083</u>
Cash flows from capital and related financing activities:		
Proceeds from sale of capital assets	4,122	-
Acquisition and construction of capital assets	(59,782)	-
Proceeds from new debt issuances	3,183,917	-
Deferred loss on refunding debt	(323,193)	-
Principal paid on long-term debt	(3,878,026)	-
Interest paid on long-term debt	(302,784)	-
Net cash used by capital and related financing activities	<u>(1,375,746)</u>	<u>-</u>
Cash flows from investing activities:		
Principal payments on note receivable	-	78,004
Interest on investments	16,593	36,399
Rents received	23,548	-
Net cash provided by investing activities	<u>40,141</u>	<u>114,403</u>
Net Increase in Cash and Cash Equivalents	1,737,865	237,665
Cash and Cash Equivalents - Beginning	1,540,109	109,215
Cash and Cash Equivalents - Ending	<u>\$ 3,277,974</u>	<u>\$ 346,880</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating income	\$ 3,535,931	\$ 78,000
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation	693,356	-
Amortization	(7,046)	-
(Increase) decrease in current assets and deferred outflows of resources:		
Customer utility receivables	(7,984)	-
Property taxes receivable	1	-
Due from other funds	(68)	-
Deferred outflows of resources	(240,137)	-
Increase (decrease) in current liabilities and deferred inflows of resources:		
Accounts payable	4,573	(210,821)
Taxes payable	(3,303)	-
Due to other funds	(1,235)	-
Compensated absences	9,364	-
Net pension liability	(213,463)	-
Deferred inflows of resources	356	-
Total adjustments	<u>234,414</u>	<u>(210,821)</u>
Net cash provided (used) by operating activities	<u>\$ 3,770,345</u>	<u>\$ (132,821)</u>
Reconciliation of Cash and Cash Equivalents on the Statement of Net Position to the Statement of Cash Flows:		
Cash and cash equivalents	\$ 2,727,778	\$ 346,880
Restricted assets - cash and cash equivalents	550,196	-
Total cash and cash equivalents - ending	<u>\$ 3,277,974</u>	<u>\$ 346,880</u>

See accompanying notes to the basic financial statements.

THE CITY OF VERNON, TEXAS
STATEMENT OF ASSETS AND LIABILITIES
FIDUCIARY FUNDS
SEPTEMBER 30, 2016

	<u>Agency Funds</u>
Assets	
Cash and cash equivalents	\$ 47,372
Total assets	<u>\$ 47,372</u>
 Liabilities	
Payable to others	\$ 47,372
Total liabilities	<u>\$ 47,372</u>

See accompanying notes to the basic financial statements.

THE CITY OF VERNON, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2016

	Budgeted Amounts		Actual	Variance With Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Property taxes	\$ 1,526,314	\$ 1,515,936	\$ 1,516,611	\$ 675
Franchise fees	700,585	630,000	596,417	(33,583)
Sales taxes	1,173,190	1,173,190	1,166,866	(6,324)
Other taxes	4,726	4,726	5,976	1,250
Licenses and permits	14,523	8,000	8,637	637
Cemetery income	53,355	56,200	58,850	2,650
Contracts	142,840	142,840	157,716	14,876
Swimming pool	87,700	87,700	85,696	(2,004)
Ambulance service	672,066	673,700	783,060	109,360
Administrative charges to other funds	281,405	272,759	276,992	4,233
Fines and fees	163,687	126,008	74,137	(51,871)
Grants and donations	10,000	-	450	450
Investment earnings	2,259	3,254	3,387	133
Other revenues	54,986	81,320	111,068	29,748
Total revenues	4,887,636	4,775,633	4,845,863	70,230
Expenditures				
General government	900,632	932,769	806,712	126,057
Public safety	3,339,954	3,104,397	2,978,947	125,450
Public works	645,238	616,264	628,838	(12,574)
Cemetery and parks	496,399	518,483	495,358	23,125
Subsidies, donations and other	455,184	538,134	442,607	95,527
Capital outlay	67,200	102,049	75,745	26,304
Debt service:				
Principal	211,161	211,161	200,085	11,076
Interest charges	44,896	46,887	42,240	4,647
Total expenditures	6,160,664	6,070,144	5,670,532	399,612
Excess of revenues under expenditures	(1,273,028)	(1,294,511)	(824,669)	469,842
Other Financing Sources (Uses)				
Proceeds from the sale of capital assets	5,000	8,000	7,798	(202)
Transfers in	1,430,565	1,443,017	1,223,044	(219,973)
Transfers out	-	(187,212)	(255,967)	443,179
Total other financing sources (uses)	1,435,565	1,263,805	974,875	(288,930)
Net change in fund balance	162,537	(30,706)	150,206	180,912
Fund balances - beginning	539,028	539,028	539,028	-
Fund balances - ending	\$ 701,565	\$ 508,322	\$ 689,234	\$ 180,912

See accompanying notes to the basic financial statements.

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

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, 2016

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, 2016

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 and Capital Projects Funds.

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

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

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

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

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2016

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, 2016

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 \$.382700 per \$100 in assessed valuation. Additionally, the City levied a tax for debt service of \$.177500 per \$100 in assessed valuation; therefore, the total tax rate was \$.560200 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, 2016

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

6. Deferred Outflows/Inflows of Resources

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

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflow of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has three types of items that qualify for reporting in this category. Property taxes receivable (\$138,672) and ambulance receivables (\$347,288) are unavailable and therefore cannot be recognized as revenue in the governmental funds until they are received. There are also certain items related to the City's participation in a pension plan (see Note 10) that is reported in this category.

7. Compensated Absences

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

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

8. Long-Term Obligations

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

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

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2016

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, 2016

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

11. Risk Management

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

12. Use of Estimates

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

13. Pension Plan

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

2. COMPLIANCE AND ACCOUNTABILITY

A. Finance-Related Legal and Contractual Provisions

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

- For the year ended September 30, 2016, the City overexpended the General Fund in one functional area (see Exhibit A-11). The City will be more diligent in monitoring its actual expenditures compared to the City's adopted budget in future years.

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

As of September 30, 2016, there were no funds with a deficit fund balance or deficit net position balance.

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2016

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, 2016, the carrying amount of the City's deposits (cash and interest-bearing savings accounts included in temporary investments) was \$7,425,818 and the bank balance was \$7,463,192, including fiduciary accounts. The City's cash deposits at September 30, 2016, and during the year ended September 30, 2016, 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, 2016, the carrying amount of the Corporation's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$733,786 and the bank balance was \$757,449. The Corporation's cash deposits at September 30, 2016, and during the year ended September 30, 2016, were entirely covered by FDIC insurance.

B. Investments

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

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

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

The City's investments at September 30, 2016 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>\$2,851,998</u>

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2016

3. DEPOSITS AND INVESTMENTS (CONT'D.)

The BDC's investments at September 30, 2016 are shown below:

<u>Investment or Investment Type</u>	<u>Weighted Maturity (Days)</u>	<u>Fair Value</u>
Money market accounts	1	<u>\$400,543</u>

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

C. Analysis of Specific Deposit and Investment Risks

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

1. Credit Risk

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

2. Custodial Credit Risk

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

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

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

3. Concentration of Credit Risk

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

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2016

3. DEPOSITS AND INVESTMENTS (CONT'D.)

4. Interest Rate Risk

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

5. Foreign Currency Risk

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

4. RECEIVABLES

Receivables and related allowances for uncollectibles consisted of the following items on September 30, 2016:

	<u>Gross Receivable</u>	<u>Allowance</u>	<u>Net Receivable</u>
General Fund:			
Ambulance	\$1,459,284	\$1,042,092	\$417,192
Property taxes	187,555	61,521	126,034
Sales taxes	299,370	-	299,370
Franchise fees	60,242	-	60,242
Other	125,332	-	125,332
Debt Service Fund:			
Property taxes	27,363	1,251	26,112
Other Governmental Funds:			
Hotel occupancy taxes	37,049	-	37,049
Grants	36,855	-	36,855
Utility Fund:			
Customers	911,874	261,793	650,081
Property taxes	2,108	2,097	11

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 \$29,000 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, 2016

5. CAPITAL ASSETS

Capital asset activity for governmental activities for the year ended September 30, 2016 was as follows:

Governmental activities:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Capital assets not being depreciated:				
Land	\$ 981,029	\$ -	\$ -	\$ 981,029
Capital assets being depreciated:				
Buildings and improvements	2,274,550	32,607	-	2,307,157
Infrastructure	2,812,648	-	-	2,812,648
Equipment, furniture, fixtures, etc.	1,948,188	107,011	5,000	2,050,199
Vehicles	<u>2,534,531</u>	<u>-</u>	<u>120,171</u>	<u>2,414,360</u>
Total capital assets being depreciated	<u>9,569,917</u>	<u>139,618</u>	<u>125,171</u>	<u>9,584,364</u>
Less accumulated depreciation for:				
Buildings and improvements	787,445	53,999	-	841,444
Infrastructure	158,400	57,778	-	216,178
Equipment, furniture, fixtures, etc.	1,267,364	135,935	5,000	1,398,299
Vehicles	<u>1,680,217</u>	<u>117,572</u>	<u>120,171</u>	<u>1,677,618</u>
Total accumulated depreciation	<u>3,893,426</u>	<u>365,284</u>	<u>125,171</u>	<u>4,133,539</u>
Total capital assets being depreciated, net	<u>5,676,491</u>	<u>(225,666)</u>	<u>-</u>	<u>5,450,825</u>
Governmental activities capital assets, net	<u>\$6,657,520</u>	<u>(\$225,666)</u>	<u>\$ -</u>	<u>\$6,431,854</u>

Depreciation expense was charged to departments as follows:

General Government	\$ 19,749
Public Safety	226,468
Public Works	75,594
Cemetery and Parks	<u>43,473</u>
	<u>\$365,284</u>

Business-type activities:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Capital assets not being depreciated:				
Land	\$ 721,690	\$ -	\$ -	\$ 721,690
Capital assets being depreciated:				
Buildings and improvements	28,189,696	-	-	28,189,696
Equipment, furniture, fixtures, etc.	1,269,685	59,782	-	1,329,467
Vehicles	<u>316,496</u>	<u>-</u>	<u>-</u>	<u>316,496</u>
Total capital assets being depreciated	<u>29,775,877</u>	<u>59,782</u>	<u>-</u>	<u>29,835,659</u>
Less accumulated depreciation for:				
Buildings and improvements	10,747,396	629,247	-	11,376,643
Equipment, furniture, fixtures, etc.	974,130	50,987	-	1,025,117
Vehicles	<u>293,557</u>	<u>13,122</u>	<u>-</u>	<u>306,679</u>
Total accumulated depreciation	<u>12,015,083</u>	<u>693,356</u>	<u>-</u>	<u>12,708,439</u>
Total capital assets being depreciated, net	<u>17,760,794</u>	<u>(633,574)</u>	<u>-</u>	<u>17,127,220</u>
Business-type activities capital assets, net	<u>\$18,482,484</u>	<u>(\$633,574)</u>	<u>\$ -</u>	<u>\$17,848,910</u>

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2016

5. CAPITAL ASSETS (CONT'D.)

Depreciation expense was charged to departments as follows:

Business-type activities:	
Water	\$418,258
Sewer	272,567
Sanitation	<u>2,531</u>
	<u>\$693,356</u>

Business Development Corporation:

	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets not being depreciated:				
Land	\$ 99,092	\$ -	\$ -	\$ 99,092
Website development (in progress)	<u>11,244</u>	<u>-</u>	<u>-</u>	<u>11,244</u>
Total capital assets not being depreciated	<u>110,336</u>	<u>-</u>	<u>-</u>	<u>110,336</u>
Capital assets being depreciated:				
Buildings and improvements	585,149	-	17,269	567,880
Equipment, furniture, fixtures, etc.	<u>15,338</u>	<u>-</u>	<u>-</u>	<u>15,338</u>
Total capital assets being depreciated	<u>600,487</u>	<u>-</u>	<u>17,269</u>	<u>583,218</u>
Less accumulated depreciation for:				
Buildings and improvements	142,904	23,537	-	166,441
Equipment, furniture, fixtures, etc.	<u>13,986</u>	<u>1,131</u>	<u>-</u>	<u>15,117</u>
Total accumulated depreciation	<u>156,890</u>	<u>24,668</u>	<u>-</u>	<u>181,558</u>
Total capital assets being depreciated, net	<u>443,597</u>	<u>(24,668)</u>	<u>17,269</u>	<u>401,660</u>
BDC capital assets, net	<u>\$553,933</u>	<u>(\$24,668)</u>	<u>\$17,269</u>	<u>\$511,996</u>

6. INTERFUND BALANCES AND ACTIVITY

A. Due To and From Other Funds

Balances due to and due from other funds at September 30, 2016 consisted of the following:

Due to Fund	Due From Fund	Amount	Purpose
General Fund	Other Governmental Funds	\$35,964	Short-term borrowings
General Fund	Enterprise Fund	2,997	Short-term borrowings
Other Governmental Funds	Enterprise Fund	688	Short-term borrowings
Enterprise Fund	General Fund	<u>3,740</u>	Short-term borrowings
	Total	<u>\$43,389</u>	

All amounts are scheduled to be repaid within one year.

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2016

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

B. Transfers To and From Other Funds

Transfers to and from other funds at September 30, 2016 consisted of the following:

<u>Transfers To</u>	<u>Transfers From</u>	<u>Amount</u>	<u>Reason</u>
General Fund	Electric Trust Principal	\$ 13,951	Interest transfer
General Fund	Other Governmental Funds	10,000	Main Street project
General Fund	Other Governmental Funds	28,021	Park contributions
General Fund	Enterprise Fund	1,171,072	Payment in lieu of taxes
Debt Service Fund	Enterprise Fund	3,613	Excess transfer refund
Other Governmental Funds	General Fund	16,914	Matching grant funds
Other Governmental Funds	General Fund	41,741	Move restricted funds
Other Governmental Funds	Enterprise Fund	24,999	Matching grant funds
Enterprise Fund	General Fund	8,826	Excess transfer refund
Enterprise Fund	Debt Service Fund	534,422	Debt service payments
Internal Service Fund	General Fund	188,486	Cover fund deficit
Internal Service Fund	Enterprise Fund	<u>67,597</u>	Cover fund deficit
Total		<u>\$2,109,642</u>	

C. Long-term Borrowing

Long-term borrowing consists of the following:

The Utility Fund has a note payable to the Employee Benefit Trust Fund, which is part of the City's Internal Service Fund. The note is due in monthly payments of \$8,943 of principal and interest at 2.50% per annum beginning October 31, 2015 through October 31, 2025. The note is unsecured.	\$870,663
Related accrued interest at September 30, 2016	<u>1,233</u>
Total interfund long-term borrowings at September 30, 2016	<u>\$871,896</u>

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

<u>Year Ended September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 86,537	\$ 20,780	\$ 107,317
2018	88,726	18,591	107,317
2019	90,970	16,347	107,317
2020	93,270	14,047	107,317
2021	95,629	11,688	107,317
2022-2026	<u>415,531</u>	<u>21,968</u>	<u>437,499</u>
Totals	<u>\$870,663</u>	<u>\$103,421</u>	<u>\$ 974,084</u>

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2016

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

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, 2016.

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, 2016, are as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Amount Due Within One Year</u>
<u>Governmental Activities:</u>					
Bonds payable, including premiums	\$1,175,000	\$1,155,820	\$1,175,658	\$1,155,162	\$ 25,578
Capital leases	618,671	-	158,105	460,566	139,400
Notes payable	546,972	-	41,980	504,992	460,536
Compensated absences *	<u>257,040</u>	<u>133,197</u>	<u>107,711</u>	<u>282,526</u>	<u>282,526</u>
Total governmental activities	<u>\$2,597,683</u>	<u>\$1,289,017</u>	<u>\$1,483,454</u>	<u>\$2,403,246</u>	<u>\$908,040</u>
<u>Business-type Activities:</u>					
Bonds payable, including premiums	\$6,671,885	\$3,183,917	\$3,810,178	\$6,045,624	\$687,806
Capital leases	16,918	-	8,370	8,548	8,548
Notes payable	216,812	-	36,652	180,160	36,582
Compensated absences *	<u>79,006</u>	<u>47,926</u>	<u>38,562</u>	<u>88,370</u>	<u>88,370</u>
Total business-type activities	<u>\$6,984,621</u>	<u>\$3,231,843</u>	<u>\$3,893,762</u>	<u>\$6,322,702</u>	<u>\$821,306</u>
<u>Business Development Corporation</u>					
Notes payable	<u>\$1,746,893</u>	<u>\$ -</u>	<u>\$ 144,165</u>	<u>\$1,602,728</u>	<u>\$144,589</u>

* - Other long-term liabilities

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

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

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2016

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

B. Outstanding Bonds

Bonds payable at September 30, 2016, 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 9/30/16</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Tax and Waterworks and Sewer System Surplus Revenue Certificates of Obligation, Series 2009 Plus bond premium	\$3,175,000	3.00%	3/15/2019	\$85,000	\$ 255,000	\$ -	\$ 255,000
					4,480	-	4,480
General Obligation Refunding Bonds, Series 2010	3,050,000	2.00% to 3.00%	3/15/2020	\$140,000 to \$385,000	1,265,000	-	1,265,000
General Obligation Refunding Bonds, Series 2012 Plus bond premium	1,850,000	2.00% to 3.00%	3/15/2023	\$160,000 to \$205,000	1,265,000	-	1,265,000
					74,309	-	74,309
General Obligation Refunding Bonds, Series 2016 Plus bond premium	3,795,000	2.00% to 4.00%	3/15/2036	\$70,000 to \$200,000	3,795,000	1,025,000	2,770,000
					<u>541,997</u>	<u>130,162</u>	<u>411,835</u>
Total all bonds					<u>\$7,200,786</u>	<u>\$1,155,162</u>	<u>\$6,045,624</u>

C. Debt Service Requirements on Long-Term Bonds

Debt service requirements on long-term bonds at September 30, 2016 are as follows:

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 25,578	\$ 36,976	\$ 62,554
2018	26,929	36,584	63,513
2019	25,578	36,192	61,770
2020	49,905	35,355	85,260
2021	52,587	34,018	86,605
2022-2026	329,128	143,148	472,276
2027-2031	349,385	83,730	433,115
2032-2036	<u>296,072</u>	<u>27,576</u>	<u>323,648</u>
Totals	<u>\$1,155,162</u>	<u>\$433,579</u>	<u>\$1,588,741</u>

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2016

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>
2017	\$ 687,806	\$ 173,180	\$ 860,986
2018	711,455	154,029	865,484
2019	716,902	134,345	851,247
2020	461,771	117,895	579,666
2021	334,002	106,707	440,709
2022-2026	1,323,906	399,002	1,722,908
2027-2031	978,649	226,270	1,204,919
2032-2036	831,133	74,524	905,657
Totals	<u>\$6,045,624</u>	<u>\$1,385,952</u>	<u>\$7,431,576</u>

D. Capital Leases

Commitments under capitalized lease agreements for facilities and equipment provide for minimum future lease payments as of September 30, 2016 as follows:

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>
2017	\$151,306	\$8,729
2018	40,361	-
2019	40,361	-
2020	40,361	-
2021	40,360	-
2022-2026	<u>204,758</u>	-
Total minimum lease payments	517,507	8,729
Less amount representing interest	(56,941)	(181)
Present value of minimum lease payments	<u>\$460,566</u>	<u>\$8,548</u>

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

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

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Equipment, furniture, fixtures, etc.	\$512,669	\$ -
Vehicles	712,264	48,398
Less accumulated depreciation	(507,627)	(47,591)
Net	<u>\$717,306</u>	<u>\$ 807</u>

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2016

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

E. Notes Payable

The City has notes payable at September 30, 2016 as follows:

Governmental Activities:

Note payable to the Waggoner National Bank to finance the balance of the aquatics center. The note is due in monthly principal payments of \$3,201 plus interest at 4.00% per annum through February 2017 when the balance of the principal and accrued interest is due. The note is unsecured. \$436,197

Note payable to the Bank of the West to finance the purchase of an ambulance. The note is due in monthly principal payments of \$2,166 plus interest at 2.74% per annum through July 1, 2019. The note is secured by the ambulance. 68,795

Total governmental activities 504,992

Business-type Activities:

Note payable to the Bank of the West to finance various equipment purchases. The note is due in monthly payments of \$666 of principal and interest at 2.99% per annum through September 15, 2018. The note is secured by a mosquito sprayer, computer hardware and software, and 14 portable radio systems. 15,502

Note payable to the Waggoner National Bank to finance the water exploration. The note is due in annual principal payments of \$20,000 plus interest at 4.00% per annum in September 2017 with the balance of the principal and accrued interest due in September 2019. The note is unsecured. 139,975

Note payable to the Bank of the West to finance various equipment purchases. The note is due in monthly payments of \$795 of principal and interest at 2.74% per annum through July 1, 2019. The note is secured by fire SCBA gear and computer software and accessories. 24,683

Total business-type activities 180,160

Total all notes payable \$685,152

The debt service requirements on the notes payable at September 30, 2016 are as follows:

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$460,535	\$ 9,018	\$469,553
2018	25,023	971	25,994
2019	<u>19,434</u>	<u>272</u>	<u>19,706</u>
Totals	<u>\$504,992</u>	<u>\$10,261</u>	<u>\$515,253</u>

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2016

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>
2017	\$ 36,583	\$ 6,628	\$ 43,211
2018	37,083	5,330	42,413
2019	<u>106,494</u>	<u>4,112</u>	<u>110,606</u>
Totals	<u>\$180,160</u>	<u>\$16,070</u>	<u>\$196,230</u>

F. Combined Debt Service Requirements

Debt service requirements on all long-term debt at September 30, 2016 are as follows:

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 625,513	\$ 57,900	\$ 683,413
2018	84,172	45,696	129,868
2019	78,049	43,788	121,837
2020	83,779	41,842	125,621
2021	87,304	39,661	126,965
2022-2026	516,446	160,588	677,034
2027-2031	349,385	83,730	433,115
2027-2030	<u>296,072</u>	<u>27,576</u>	<u>323,648</u>
Totals	<u>\$2,120,720</u>	<u>\$500,781</u>	<u>\$2,621,501</u>

<u>Year Ending September 30,</u>	<u>Business-type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 732,937	\$ 179,989	\$ 912,926
2018	748,538	159,359	907,897
2019	823,396	138,457	961,853
2020	461,771	117,895	579,666
2021	334,002	106,707	440,709
2022-2026	1,323,906	399,002	1,722,908
2027-2031	978,649	226,270	1,204,919
2032-2036	<u>831,133</u>	<u>74,524</u>	<u>905,657</u>
Totals	<u>\$6,234,332</u>	<u>\$1,402,203</u>	<u>\$7,636,535</u>

G. Advance Refundings of Debt

The City defeased certain general obligation bonds in the current year by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. GASB Statement No. 7, "Advance Refundings Resulting in Defeasance of Debt", provides that refunded debt and assets placed in escrow for the payment of related debt service be excluded from the financial statements. The City issued the following refunding bonds during the current fiscal year:

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2016

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

General Obligation Refunding Bonds, Series 2016

On July 8, 2016, the City issued Refunding Bonds of \$3,795,000 (par value) with interest rates ranging from 2.00% to 4.00%. The bonds were issued to refund all of the outstanding Combination Tax and Revenue Certificates of Obligation, Series 2005, with a par value of \$1,120,000 and a portion of the Tax and Waterworks and Sewer System Revenue Certificates of Obligation, Series 2009, with a par value of \$2,760,000. The refunding decreased the City's total debt service requirements by \$774,081 and resulted in an economic gain (difference between the present value of the debt service payments of the old and new debt) of \$613,468.

As of September 30, 2016, outstanding balances of bond issues that have been refunded and defeased in-substance by placing existing assets and the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments are \$2,760,000 of the Tax and Waterworks and Sewer System Revenue Certificates of Obligation, Series 2009. The bonds are scheduled to be called and paid in full on March 15, 2019.

H. Continuing Disclosure

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

I. BDC Debt

The BDC has notes payable outstanding at September 30, 2016 as follows:

The note payable to the Texas Leverage Fund (#1) is payable in monthly installments of \$6,215 including interest at 3.25% per annum and is secured by sales tax receipts collected by BDC. The note matures in January 2025. \$ 553,976

The note payable to the Texas Leverage Fund (#2) is payable in monthly installments of \$10,533 including interest at 3.25% per annum and is secured by sales tax receipts collected by BDC. The note matures in June 2026. 1,048,752

Total \$1,602,728

The debt service requirements on the notes payable at September 30, 2016 are as follows:

<u>Year Ending September 30.</u>	<u>BDC Notes Payable</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 137,043	\$ 49,434	\$ 186,477
2018	154,594	48,835	203,429
2019	160,093	43,336	203,429
2020	165,786	37,642	203,428
2021	171,683	31,746	203,429
2022-2026	<u>813,529</u>	<u>65,293</u>	<u>878,822</u>
Totals	<u>\$1,602,728</u>	<u>\$276,286</u>	<u>\$1,879,014</u>

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2016

8. NET POSITION AND FUND BALANCES

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

Net Position:	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
Restricted for:				
Debt service	\$ 48,744	\$547,256	\$ 596,000	\$ -
Public improvements:				
Expendable	49,637	-	49,637	-
Nonexpendable	2,851,998	-	2,851,998	-
Perpetual care:				
Nonexpendable	220,597	-	220,597	-
Municipal court building security	23,410	-	23,410	-
Municipal court technology	21,908	-	21,908	-
Public, education, and government access	66,785	-	66,785	-
Grants	88	-	88	-
Public safety	21,976	-	21,976	-
Parks and aquatics center	72,823	-	72,823	-
Christmas decorations	9,356	-	9,356	-
Tourism	205,540	-	205,540	-
Total restricted net position	<u>\$3,592,862</u>	<u>\$547,256</u>	<u>\$4,140,118</u>	<u>\$ -</u>

Fund Balances:	Governmental Funds				Total
	General	Debt Service Fund	Electric Trust Principal	Other Governmental	
Restricted for:					
Public improvements	\$ 49,637	\$ -	\$2,851,998	\$ -	\$2,901,635
Public, education, and government access	66,785	-	-	-	66,785
Debt service	-	48,744	-	-	48,744
Municipal court building security	-	-	-	23,410	23,410
Municipal court technology	-	-	-	21,908	21,908
Grants	-	-	-	88	88
Public safety	-	-	-	21,976	21,976
Parks and aquatics center	-	-	-	72,823	72,823
Christmas decorations	-	-	-	9,356	9,356
Tourism	-	-	-	205,540	205,540
Perpetual care	-	-	-	220,597	220,597
Total restricted fund balance	<u>\$116,422</u>	<u>\$48,744</u>	<u>\$2,851,998</u>	<u>\$575,698</u>	<u>\$3,592,862</u>
Committed for:					
Main Street	<u>\$ 96,626</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 96,626</u>

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2016

9. SELF-FUNDED WORKERS COMPENSATION

During the fiscal year ended September 30, 1992, the City began a self-insurance program for workers compensation. The Workers Compensation Fund, an internal service fund, was established for this program. Under current arrangements, this program is administered by the Texas Municipal League. Stop-loss insurance is carried to cover claims in excess of \$250,000 in the aggregate. During the fiscal year ended September 30, 2016, the Workers Compensation Fund incurred (\$171,668) for claims, stop-loss insurance premiums, and administrative costs. During the same period, the Fund did not receive any charges and fees from the General Fund, the Enterprise Fund or the BDC. Settled claims have not exceeded commercial coverage to date.

When payments are received from the General and Enterprise Funds and the BDC, they are based on estimates of the amounts needed to pay current and prior claims and other expenses, and to establish a reserve for catastrophic losses. The estimates are based on the City's historical cost data. As of September 30, 2016, the reserve was \$23,241. The claims payable of \$279 are based on the requirements of GASB Statement Number 10 which requires that a liability for claims be reported if information available prior to issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the claims liability amounts in the fiscal years ended September 30, 2015 and 2016 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, 2015	<u>\$ 5,393</u>	<u>\$268,775</u>	<u>\$46,176</u>	<u>\$227,992</u>
FYE September 30, 2016	<u>\$227,992</u>	<u>(\$171,668)</u>	<u>\$56,045</u>	<u>\$ 279</u>

10. DEFINED BENEFIT PENSION PLAN

A. Plan Description

The City participates as one of 866 plans in the nontraditional, joint contributory, hybrid defined benefit plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmr.com.

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

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2016

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

B. Benefits Provided

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

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

Employees Covered by Benefit Terms

At the December 31, 2015 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	70
Inactive employees entitled to but not yet receiving benefits	78
Active employees	89

C. Contributions

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

Employees of the City were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City were 18.67% and 11.95% in calendar years 2015 and 2016, respectively. The City's contributions to TMRS for the year ended September 30, 2016, were \$494,331, and were equal to the required contributions.

D. Net Pension Liability

The City's Net Position Liability (NPL) was measured as of December 31, 2015, 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, 2015 actuarial valuation was determined using the following actuarial assumptions:

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

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2016

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

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

Actuarial assumptions used in the December 31, 2015, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation. After the Asset Allocation Study analysis and experience investigation study, the Board amended the long-term expected rate of return on pension plan investments from 7% to 6.75%. 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 adjustments for time (aggressive). At its meeting on July 30, 2015, the TMRS Board approved a new portfolio target allocation. The target allocation and best estimates of arithmetic real rates of return for each asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return (Arithmetic)</u>
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.10%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	3.65%
Real Return	10.0%	4.03%
Real Estate	10.0%	5.00%
Absolute Return	10.0%	4.00%
Private Equity	<u>5.0%</u>	8.00%
Total	<u>100.0%</u>	

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2016

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

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.

Changes in Net Pension Liability / (Asset)

	Increase (Decrease)		
	Total Pension Liability (a)	Fiduciary Net Position (b)	Net Pension Liability / (Asset) (a) - (b)
Balances as of December 31, 2014	\$22,392,153	\$17,116,103	\$5,276,050
Changes for the year:			
Service cost	572,998	-	572,998
Interest on total pension liability	1,358,771	-	1,358,771
Change of benefit terms	(2,689,621)	-	(2,689,621)
Difference between expected and actual experience	(206,925)	-	(206,925)
Change of assumptions	514,583	-	514,583
Contributions - employer	-	687,295	(687,295)
Contributions - employee	-	261,472	(261,472)
Net investment income	-	25,252	(25,252)
Benefit payments, including refunds of employee contributions	(1,156,038)	(1,156,038)	-
Administrative expense	-	(15,383)	15,383
Other changes	-	(760)	760
Balances as of December 31, 2015	<u>\$20,785,921</u>	<u>\$16,917,941</u>	<u>\$3,867,980</u>

The City changes its benefits as follows: Decreased repeating COLA from 70% to 30% and decreased repeating USC from 100% to 75%.

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 / (asset) 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.

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2016

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

	1% Decrease 5.75%	Current Discount Rate 6.75%	1% Increase 7.75%
Net pension liability	\$6,699,195	\$3,867,980	\$1,551,618

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.tmr.com.

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

For the year ended September 30, 2016, the City recognized pension expense (benefit) of (\$2,030,037).

At September 30, 2016, 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	\$ -	\$449,150
Differences in assumption changes	376,994	-
Net difference between projected and actual earnings	1,064,407	-
Contributions made subsequent to measurement date	328,151	-
Total	\$1,769,552	\$449,150

\$328,151 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended December 31:</u>	
2016	\$171,271
2017	248,920
2018	337,485
2019	234,575
Total	\$992,251

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2016

11. HEALTH CARE COVERAGE

On March 11, 1992, the City began a self-insurance medical program through establishment of the Employee Benefits Trust Fund, an internal service fund. A contract is in effect with Blue Cross Blue Shield of Texas for the administration of the fund. Stop-loss insurance coverage is carried under which the Employee Benefits Trust Fund pays the first \$55,000 of medical expenses per covered person up to an aggregate amount of \$825,303 per year. The insurance provider pays amounts in excess of the aforementioned. Settled claims have not exceeded commercial insurance coverage as of September 30, 2016. Group life insurance premiums are also paid by the Employee Benefits Trust Fund. During the fiscal year ended September 30, 2016, \$872,164 was expended for health benefits, insurance premiums and administrative costs. Charges and fees for the same period amounted to \$962,317, including \$533,050 from the General Fund, \$164,500 from the Enterprise Fund, \$251,188 from employee payroll deductions, \$7,279 from the Business Development Corporation of Vernon, and \$6,300 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 Business Development Corporation of Vernon participate in the self-insurance program and make payments to the internal service fund based on estimates of the amounts needed to pay current and prior year claims and other expenses, and to establish a reserve for catastrophic losses. The estimates are derived from the City's historical cost experience. At September 30, 2016, the reserve was \$1,107,134.

The claims liability of \$94,511 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, 2015 and 2016 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, 2015	<u>\$57,592</u>	<u>\$884,466</u>	<u>\$864,438</u>	<u>\$77,620</u>
FYE September 30, 2016	<u>\$77,620</u>	<u>\$872,164</u>	<u>\$855,273</u>	<u>\$94,511</u>

12. COMMITMENTS AND CONTINGENCIES

A. Litigation

No reportable litigation was pending against the City at September 30, 2016.

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2016

12. COMMITMENTS AND CONTINGENCIES (CONT'D.)

B. Federal and State Grants – Compliance Audits

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

13. CLOSURE AND POSTCLOSURE CARE COST

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

The City of Vernon, Texas 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.

REQUIRED SUPPLEMENTARY INFORMATION

THE CITY OF VERNON, TEXAS

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

	2014	2015
Total Pension Liability		
Service cost	\$ 628,498	\$ 572,998
Interest on total pension liability	1,529,732	1,358,771
Changes of benefit terms	-	(2,689,621) ⁽¹⁾
Difference between expected and actual experience	(672,755)	(206,925)
Changes of assumptions	-	514,583
Benefit payments/refunds of contributions	(1,264,777)	(1,156,038)
Net change in total pension liability	220,698	(1,606,232)
Total pension liability, beginning	22,171,455	22,392,153
Total pension liability, ending (a)	\$22,392,153	\$20,785,921
Fiduciary Net Position		
Contributions - employer	\$ 734,220	\$ 687,295
Contributions - employee	286,327	261,472
Net investment income	939,988	25,252
Benefit payments/refunds of contributions	(1,264,777)	(1,156,038)
Administrative expenses	(9,814)	(15,383)
Other	(807)	(760)
Net change in fiduciary net position	685,137	(198,162)
Fiduciary net position, beginning	16,430,966	17,116,103
Fiduciary net position, ending (b)	\$17,116,103	\$16,917,941
Net pension liability, ending = (a) - (b)	\$ 5,276,050	\$ 3,867,980
Fiduciary net position as a % of total pension liability	76.44%	81.39%
Covered employee payroll	\$ 4,090,382	\$ 3,735,319
Net pension liability as a % of covered payroll	128.99%	103.55%

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

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

THE CITY OF VERNON, TEXAS

REQUIRED SUPPLEMENTARY INFORMATION SCHEDULE OF CONTRIBUTIONS TEXAS MUNICIPAL RETIREMENT SYSTEM

	2015	2016
Actuarial determined contribution	\$ 712,711	\$ 494,331
Contributions in relation to the actuarially determined contribution	(712,711)	(494,331)
Contribution deficiency	\$ -	\$ -
Covered employee payroll	\$ 3,843,062	\$ 3,636,119
Contributions as a percentage of covered employee payroll	18.55%	13.60%

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

Other Information:

1. Decreased repeating COLA from 70% to 30%
2. Decreased repeating USC from 100% to 75%

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

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

