

THE CITY OF VERNON, TEXAS

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2021

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FINANCIAL SECTION



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Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Vernon, Texas (City) as of and for the year ended September 30, 2021, 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, 2021, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Edgin, Parkman, Fleming & Fleming, PC

EDGIN, PARKMAN, FLEMING & FLEMING, PC

Wichita Falls, Texas
April 8, 2022

City of Vernon

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Vernon, Texas 76384-4741
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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, 2021. Please read it in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$37,337,112 (net position). Of this amount, \$9,660,732 (unrestricted net position) may be used to meet the City's obligations.
- During the year, the City's total net position increased by \$3,368,452.
- The governmental funds reported a fund balance this year of \$9,444,434, which is an increase of \$1,268,663 in comparison with the prior year amount of \$8,175,771 or 15.52%. Of this total fund balance, \$4,714,232 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 \$4,714,232. \$4,730,202 of the total Governmental Funds fund balances are either restricted, committed or assigned.

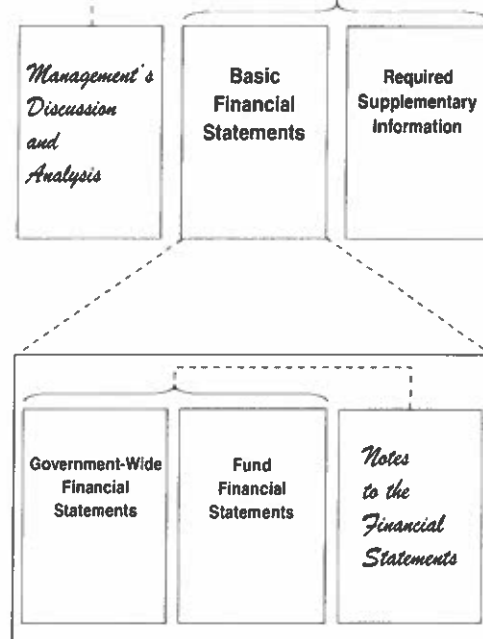
OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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



Summary Detail

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

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

<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>	• Statement of net position • Statement of activities	• Balance sheet • Statement of revenues, expenditures & changes in fund balances	• 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 \$37,337,112 at September 30, 2021. (See Table A-1)

Table A-1
City's Net Position

	Governmental Activities		Business-type Activities		Total	
	2021	2020	2021	2020	2021	2020
Current and other assets	\$ 13,209,692	\$ 10,407,777	\$ 9,235,168	\$ 8,299,023	\$ 22,444,860	\$ 18,706,800
Capital assets, net	6,113,434	5,962,971	18,112,587	17,864,608	24,226,021	23,827,579
Total assets	19,323,126	16,370,748	27,347,755	26,163,631	46,670,881	42,534,379
Deferred outflow s of resources						
Related to pension plan	297,171	280,797	75,500	71,453	372,671	352,250
Related to OPEB plan	78,100	53,618	19,843	13,212	97,943	-
Deferred loss on refunding debt	-	-	204,529	218,627	204,529	218,627
Total deferred outflow s of resources	375,271	334,415	299,872	303,292	675,143	570,877
Current and other liabilities	2,089,662	661,545	996,027	904,618	3,085,689	1,566,163
Long-term liabilities	2,873,562	3,041,201	3,207,906	3,661,981	6,081,468	6,703,182
Total liabilities	4,963,224	3,702,746	4,203,933	4,566,599	9,167,157	8,269,345
Deferred inflow s of resources						
Related to pension plan	631,696	721,510	160,499	177,792	792,195	899,302
OPEB plan related	39,519	27,904	10,041	6,875	49,560	34,779
Total deferred inflow s of resources	671,215	749,414	170,540	184,667	841,755	934,081
Net position						
Net investment in capital assets	4,750,610	4,713,773	15,120,173	14,336,945	19,870,783	19,050,718
Restricted	4,621,533	4,539,191	3,184,064	2,765,301	7,805,597	7,304,492
Unrestricted	4,691,815	3,000,039	4,968,917	4,613,411	9,660,732	7,613,450
Total net position	\$ 14,063,958	\$ 12,253,003	\$ 23,273,154	\$ 21,715,657	\$ 37,337,112	\$ 33,968,660

The \$9,660,732 of unrestricted net position at September 30, 2021, 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 \$15,685,781. A significant portion, 63%, of the City's revenue comes from charges for services. (See Figure A-3.) 3% comes from operating and capital grants and contributions, 10% comes from sales taxes, 15% from property taxes and 4% from franchise fees. Other minor categories combined make up 5% of the City's total revenues.

The total cost of all programs and services was \$12,317,329, 43% of these costs are for water, sewer and sanitation related expenses. The City's expenses cover a range of services, with 28% related to public safety, 8% for public works, 6% for cemetery, and other, 6% for subsidies, donations and other, and 7% general government. (See Figure A-4.)

Figure A-3
Source of Revenue for Fiscal Year 2021

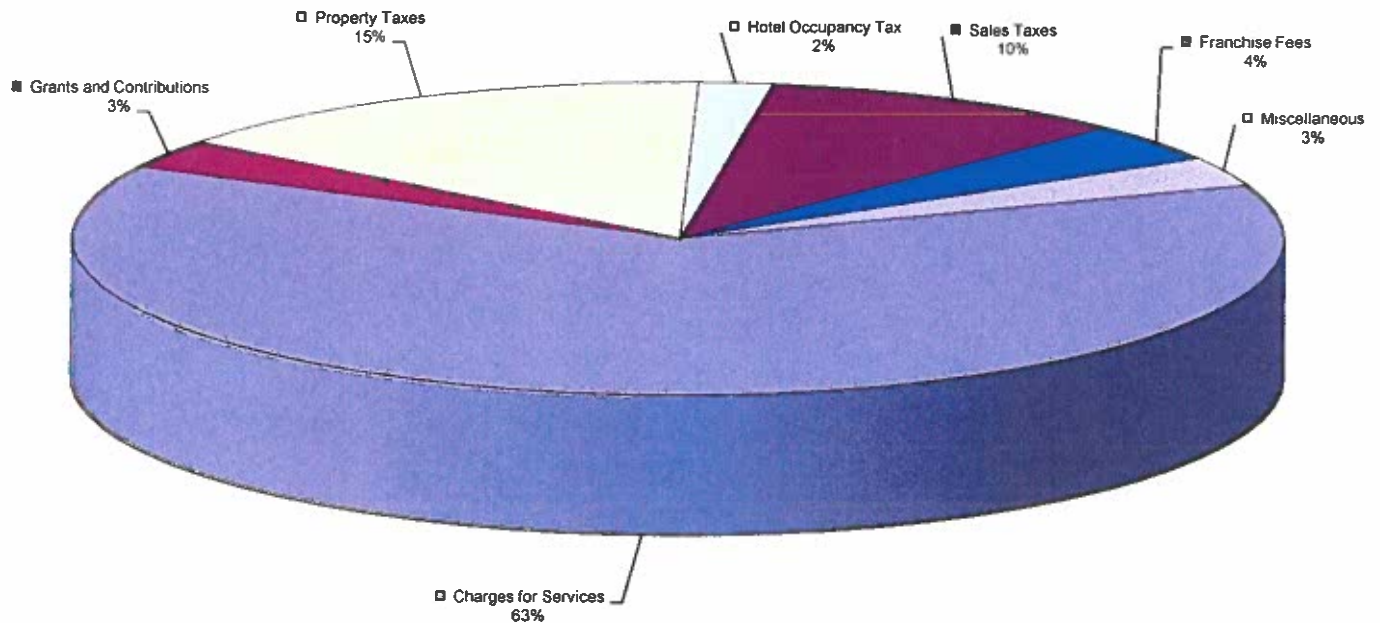
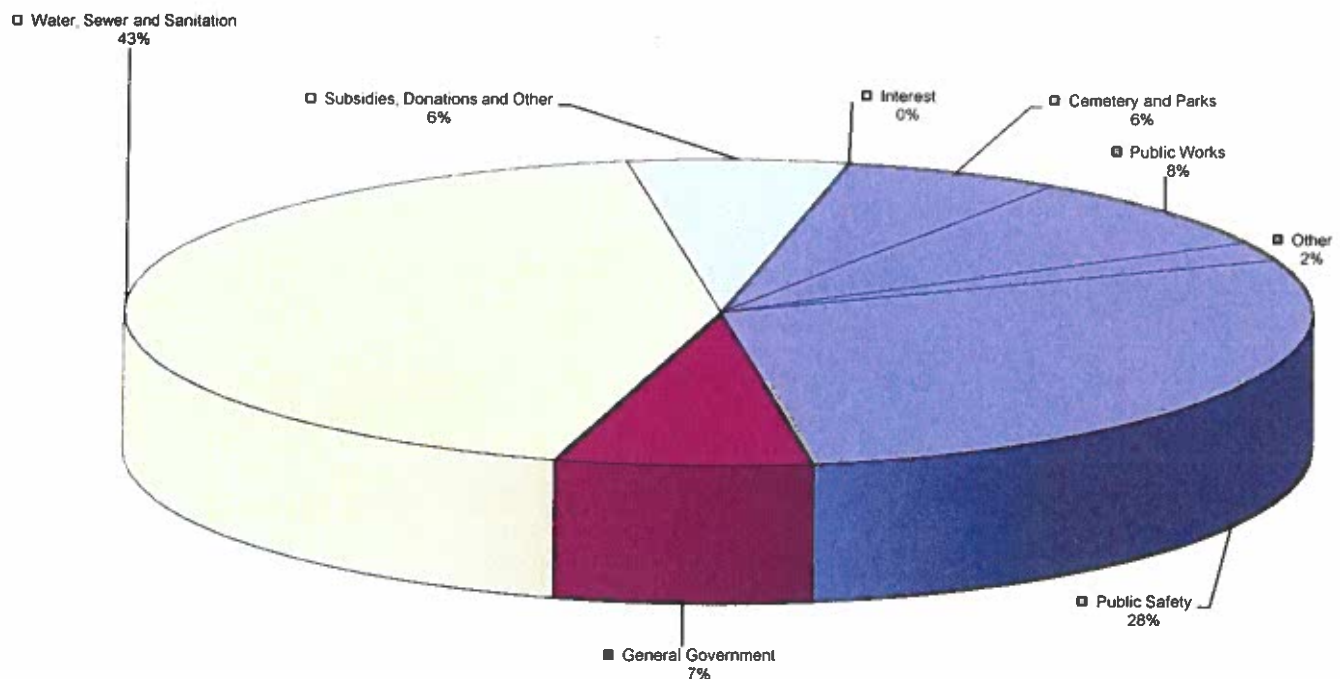


Figure A-4
Functional Expense for Fiscal Year 2021



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	
	2021	2020	2021	2020	2021	2020
Revenues						
Program revenues						
Charges for services	\$ 1,425,102	\$ 1,265,159	\$ 8,395,390	\$ 7,877,350	\$ 9,820,492	\$ 9,142,509
Operating and capital grants	500,103	153,171	-	-	500,103	153,171
Capital grants and contributions	40,000	-	-	-	40,000	-
General revenues						
Property taxes	2,296,694	2,391,702	-	-	2,296,694	2,391,702
Sales taxes	1,509,091	1,371,645	-	-	1,509,091	1,371,645
Franchise fees	581,306	581,016	-	-	581,306	581,016
Other taxes	425,599	361,104	-	-	425,599	361,104
Investment earnings	63,483	114,401	43,466	93,578	106,949	207,979
Miscellaneous	367,748	185,422	37,799	41,545	405,547	226,967
Total revenues	7,209,126	6,423,620	8,476,655	8,012,473	15,685,781	14,436,093
Expenses						
General government	839,225	868,251	-	-	839,225	868,251
Public safety	3,501,501	3,445,471	-	-	3,501,501	3,445,471
Public works	1,008,394	1,008,095	-	-	1,008,394	1,008,095
Cemetery and parks	729,482	585,050	-	-	729,482	585,050
Subsidies, donations, and other	671,745	474,842	-	-	671,745	474,842
Christmas decorations	6,185	7,467	-	-	6,185	7,467
Civic and cultural	154,434	115,425	-	-	154,434	115,425
Economic development	103,303	89,895	-	-	103,303	89,895
Interest	35,978	34,289	-	-	35,978	34,289
Water, sewer and sanitation	-	-	5,267,082	4,978,525	5,267,082	4,978,525
Total expenses	7,050,247	6,628,785	5,267,082	4,978,525	12,317,329	11,607,310
Transfers	1,652,076	1,408,322	(1,652,076)	(1,408,322)	-	-
Change in net position	1,810,955	1,203,157	1,557,497	1,625,626	3,368,452	2,828,783
Net position - beginning	12,253,003	11,049,846	21,715,657	20,090,031	33,968,660	31,139,877
Net position - ending	\$ 14,063,958	\$ 12,253,003	\$ 23,273,154	\$ 21,715,657	\$ 37,337,112	\$ 33,968,660

The most significant fluctuation between years relates to the following:

- Charges for Services increased by \$677,983, which is due to increased usage by commercial users.
- Investment earnings decreased \$101,030 due to declining interest rates.
- Operating grants increased \$346,932 due to the City receiving grant funding due to the Covid-19 pandemic. Miscellaneous revenues increased \$178,580 mostly due to the insurance proceeds for the pool damage from the winter storm.
- Expenses increased overall by \$710,019 partially due to an increase in pool repair, utility service, personnel and sanitation service expense.

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

- The cost of all *governmental* activities this year was \$7,050,247; however, the amount that our taxpayers paid for these activities through property taxes was \$2,296,694.
- Some of the cost was paid by those who directly benefited from the programs through charges for services of \$1,425,102.

Net Cost of Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2021	2020	2021	2020
General government	\$ 839,225	\$ 868,251	\$ 621,711	\$ 577,710
Public safety	3,501,501	3,445,471	2,061,280	2,554,206
Public works	1,008,394	1,008,095	967,832	961,678
Cemetery and parks	729,482	585,050	496,230	423,255
Economic development	103,303	89,895	103,303	89,895
Subsidies, donations and other	671,745	474,842	644,167	452,533
Christmas decorations	6,185	7,467	107	1,464
Civic and cultural	154,434	115,425	154,434	115,425
Interest	35,978	34,289	35,978	34,289
Total	<u>\$ 7,050,247</u>	<u>\$ 6,628,785</u>	<u>\$ 5,085,042</u>	<u>\$ 5,210,455</u>

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Revenues from governmental funds totaled \$7,160,466, an increase of \$619,399 or 9%. The larger increase was an increase in grants and donations of \$386,932 or 253% due to receiving a TDEM Covid-19 grant for \$448,272 and an increase in sales tax of \$137,466 or 10% due to increased consumer spending after the Covid-19 pandemic and local construction activity.

Expenditures from governmental funds totaled \$7,790,150, an increase of \$1,057,569 or 16%. The largest increase was in capital outlay, an increase of \$329,083 or 161% due to a capital lease for police equipment for \$225,931. The second largest increase was in public safety, which was an increase of \$274,749 or 8% due to rising personnel cost. Cemetery and parks increased \$156,242 or 29% due to repairing the swimming pool for \$142,640. Transfers to the general fund increased by \$218,205 or 11% to pay for increased expenditures in the general fund.

General Fund Budgetary Highlights

During the year, the City did amend its budget. The City's total actual expenditures were \$222,682 below final budgeted amounts but ended the year with one over-expended area, capital outlay, due to the City purchasing police equipment through a lease. Total actual revenues were \$250,730 above final budgeted amounts.

The significant positive revenue variances related to sales tax, franchise and ambulance service fees. Sales tax was \$59,091 or 4% more than the budgeted amount due to increased consumer spending after the Covid-19 pandemic and local construction activity. Ambulance service fees were \$93,213 or 19% more than the budgeted amount due to sustained activity after the pandemic. Franchise fees were \$59,077 or 11% more than budgeted amounts due to fees remaining higher than anticipated.

The significant expenditure variances were related to capital outlay, public safety, public works and general government. Capital outlay was \$231,171 over the final budgeted amount or 88% due to a \$225,931 capital lease not being budgeted. Public safety was \$199,563 under the final budget amount or 5% due to the following line items being under budget EMS personnel cost \$68,000 and police personnel cost \$51,000. Public works was \$107,070 under the final budget amount or 10% due to the annual paving project actual cost being \$59,000 under budget and personnel cost being \$41,750 under budget. General government was \$85,076 under the final budget amount or 9% due to \$75,000 being budgeted for special services that are actually state court remittances.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At September 30, 2021, the City had invested in a broad range of capital assets totaling \$24,226,021, 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	
	2021	2020	2021	2020	2021	2020
Land	\$ 981,029	\$ 981,029	\$ 721,690	\$ 721,690	\$ 1,702,719	\$ 1,702,719
Construction in progress	-	-	14,250	100,605	14,250	100,605
Buildings and improvements	1,229,698	1,256,923	16,175,702	15,959,383	17,405,400	17,216,306
Infrastructure	2,307,603	2,365,368	-	-	2,307,603	2,365,368
Equipment, furniture, fixtures	833,126	517,760	1,127,434	1,013,297	1,960,560	1,531,057
Vehicles	761,978	841,891	73,511	69,633	835,489	911,524
Total capital assets, net	<u>\$6,113,434</u>	<u>\$5,962,971</u>	<u>\$ 18,112,587</u>	<u>\$ 17,864,608</u>	<u>\$ 24,226,021</u>	<u>\$ 23,827,579</u>

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

For the City's fiscal year 2022, the City plans capital additions including:

GENERAL

Street Seal Coat and Repairs	\$ 390,000
Police Cars	85,000
Slide Repair and Diving Board	46,000
Ambulance Remount	150,000
Pickup - Parks	32,500
Outdoor Event Center	200,000
Total	<u>\$ 903,500</u>

ENTERPRISE

Bulk Water Purchases	\$ 65,000
Water Mains and Wells	147,000
Waste Water Pickup	42,000
Water Tank - Orbison Park	207,000
Water Booster Station	9,000
Water Treatment Plant Rejuvenations	4,357,894
24" Water Line Replacement	12,000,000
Total	<u>\$ 16,827,894</u>

Long-term Obligations

At September 30, 2021, the City had \$5,078,743 in bonds, compensated absences, notes and leases outstanding as shown in Table A-5. More detailed information about the City's long-term obligations is presented in the notes to the financial statements.

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

Table A-5
Long-term Obligations

	Governmental Activities		Business-type Activities		Total	
	2021	2020	2021	2020	2021	2020
Certificates of obligation	\$ 974,575	\$ 1,027,163	\$ -	\$ -	\$ 974,575	\$ 1,027,163
Capital leases	388,249	222,035	-	-	388,249	222,035
Notes payable	-	-	39,975	59,975	39,975	59,975
Compensated absences	439,817	385,417	102,440	101,703	542,257	487,120
Revenue bonds	-	-	3,133,687	3,467,689	3,133,687	3,467,689
Total	<u>\$ 1,802,641</u>	<u>\$ 1,634,615</u>	<u>\$ 3,276,102</u>	<u>\$ 3,629,367</u>	<u>\$ 5,078,743</u>	<u>\$ 5,263,982</u>

The City issued \$12,000,000 Combination Tax and Surplus Revenue Certificates of Obligation, Series 2021 in October of 2021 for the construction of 8.5 miles of a 24" groundwater pipeline.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Increases/Decreases in Revenue

In the General Fund, total 2022 budgeted revenues decreased by \$727,412 from 2021 actual revenues. The largest decrease was grant income which decreased \$449,927 or 100%. Ambulance fees decreased \$103,213 or 18%. Franchise tax income decreased \$59,077 or 10%. Property tax revenue budgeted for 2022 was materially the same amount as actual for 2021, with a decrease of all property tax revenue of \$4,954 or less than 1%. The tax rate for 2022 is \$0.41136 per \$100 of taxable property value for Maintenance and Operation.

In the Debt Service Fund, the 2022 tax rate is \$0.12482 per \$100 of taxable property value. The total amount of municipal debt secured by property taxes is \$539,178.

In the Enterprise Fund budget, 2022 revenues were increased by \$952,792 or 11% from 2021 actual revenues. Grant income was increased \$1,278,947 or 100%. Water revenues were decreased \$228,001 or 5%. Sewer revenues were decreased \$96,619 or 4%.

Decreases/Increases in Expenditures

General Fund expenditures were increased by \$507,040 or 7% from the actual 2021 expenditures.

Debt Service Fund expenditures were budgeted for the same amount as 2021 actual expenditures.

In the Enterprise Fund, expenses were decreased by \$125,639 or 2% from 2021 actual expenses.

The adopted budget shows a decrease of \$437,963 in General Fund Balance and a decrease of \$768,965 in the Utility (Enterprise) Fund net position for a total, if realized, of a \$1,206,928 decrease in the City's net position for fiscal-year ending 2022.

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, 2021

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents	\$ 11,634,380	\$ 8,427,023	\$ 20,061,403	\$ 2,187,130
Receivables:				
Due from primary government	-	-	-	134,289
Customers (net)	-	679,494	679,494	-
Ambulance (net)	271,410	-	271,410	-
Property taxes (net)	164,655	-	164,655	-
Sales taxes	400,295	-	400,295	-
Hotel occupancy taxes	35,502	-	35,502	-
Franchise fees	148,240	-	148,240	-
Other governments	28,477	-	28,477	-
Other	99,839	-	99,839	-
Internal balances	261,951	(261,951)	-	-
Other assets	48,877	450	49,327	-
Restricted assets:				
Cash and cash equivalents	116,066	390,152	506,218	-
Capital assets not being depreciated	981,029	735,940	1,716,969	99,092
Capital assets being depreciated (net)	5,132,405	17,376,647	22,509,052	339,353
Total assets	<u>19,323,126</u>	<u>27,347,755</u>	<u>46,670,881</u>	<u>2,759,864</u>
Deferred Outflows of Resources				
Pension plan related	297,171	75,500	372,671	-
OPEB plan related	78,100	19,843	97,943	-
Deferred loss on refunding debt	-	204,529	204,529	-
Total deferred outflows of resources	<u>375,271</u>	<u>299,872</u>	<u>675,143</u>	<u>-</u>
Liabilities				
Accounts payable	259,777	305,045	564,822	-
Taxes payable	277	8,915	9,192	-
Due to component unit	134,289	-	134,289	-
Due to others	71,896	-	71,896	-
Accrued interest payable	9,795	4,642	14,437	-
Unearned revenues	1,278,947	11,486	1,290,433	-
Customer deposits	-	240,612	240,612	-
Long-term liabilities:				
Portion due or payable within one year	334,681	425,327	760,008	181,982
Portion due or payable after one year	1,467,960	2,850,775	4,318,735	629,514
Net pension liability	1,033,001	262,462	1,295,463	-
Total OPEB liability	372,601	94,669	467,270	-
Total liabilities	<u>4,963,224</u>	<u>4,203,933</u>	<u>9,167,157</u>	<u>811,496</u>
Deferred Inflows of Resources				
Pension plan related	631,696	160,499	792,195	-
OPEB plan related	39,519	10,041	49,560	-
Total deferred inflows of resources	<u>671,215</u>	<u>170,540</u>	<u>841,755</u>	<u>-</u>
Net Position				
Net investment in capital assets	4,750,610	15,120,173	19,870,783	438,445
Restricted	4,621,533	3,184,064	7,805,597	-
Unrestricted	4,691,815	4,968,917	9,660,732	1,509,923
Total net position	<u>\$ 14,063,958</u>	<u>\$ 23,273,154</u>	<u>\$ 37,337,112</u>	<u>\$ 1,948,368</u>

See accompanying notes to the basic financial statements.

THE CITY OF VERNON, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2021

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 839,225	\$ 217,514	\$ -	\$ -
Public safety	3,501,501	982,404	457,817	-
Public works	1,008,394	40,562	-	-
Cemetery and parks	729,482	157,044	36,208	40,000
Subsidies, donations and other	671,745	27,578	-	-
Christmas decorations	6,185	-	6,078	-
Civic and cultural	154,434	-	-	-
Economic development	103,303	-	-	-
Interest expense	35,978	-	-	-
Total governmental activities	<u>7,050,247</u>	<u>1,425,102</u>	<u>500,103</u>	<u>40,000</u>
Business-type activities:				
Water	1,996,484	4,190,268	-	-
Sewer	1,189,301	2,404,619	-	-
Sanitation	1,893,495	1,646,429	-	-
Other	187,802	154,074	-	-
Total business-type activities	<u>5,267,082</u>	<u>8,395,390</u>	<u>-</u>	<u>-</u>
Total primary government	<u>\$ 12,317,329</u>	<u>\$ 9,820,492</u>	<u>\$ 500,103</u>	<u>\$ 40,000</u>
Component unit:				
Business Development Corporation of Vernon	<u>\$ 226,392</u>	<u>\$ 33,000</u>	<u>\$ -</u>	<u>\$ -</u>
General revenues and transfers:				
Taxes:				
Property taxes, levied for general purposes				
Property taxes, levied for debt service purposes				
Franchise fees				
Sales taxes				
Hotel occupancy taxes				
Other taxes				
Interest earnings				
Miscellaneous				
Transfers				
Total general revenues and transfers				
Change in net position				
Net position - beginning				
Net position - ending				

See accompanying notes to the basic financial statements.

Net (Expense) Revenue and Changes in Net Position			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Unit
\$ (621,711)	\$ -	\$ (621,711)	\$ -
(2,061,280)	-	(2,061,280)	-
(967,832)	-	(967,832)	-
(496,230)	-	(496,230)	-
(644,167)	-	(644,167)	-
(107)	-	(107)	-
(154,434)	-	(154,434)	-
(103,303)	-	(103,303)	-
(35,978)	-	(35,978)	-
<u>(5,085,042)</u>	<u>-</u>	<u>(5,085,042)</u>	<u>-</u>
-	2,193,784	2,193,784	-
-	1,215,318	1,215,318	-
-	(247,066)	(247,066)	-
-	(33,728)	(33,728)	-
-	3,128,308	3,128,308	-
<u>(5,085,042)</u>	<u>3,128,308</u>	<u>(1,956,734)</u>	<u>-</u>
-	-	-	(193,392)
1,656,119	-	1,656,119	-
640,575	-	640,575	-
581,306	-	581,306	-
1,509,091	-	1,509,091	754,546
408,986	-	408,986	-
16,613	-	16,613	-
63,483	43,466	106,949	9,119
367,748	37,799	405,547	-
1,652,076	(1,652,076)	-	-
<u>6,895,997</u>	<u>(1,570,811)</u>	<u>5,325,186</u>	<u>763,665</u>
1,810,955	1,557,497	3,368,452	570,273
12,253,003	21,715,657	33,968,660	1,378,095
<u>\$ 14,063,958</u>	<u>\$ 23,273,154</u>	<u>\$ 37,337,112</u>	<u>\$ 1,948,368</u>

EXHIBIT A-3

THE CITY OF VERNON, TEXAS
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2021

	General	Grant Fund	Debt Service Fund	Electric Trust Principal	Other Governmental	Total Governmental Funds
Assets						
Cash and cash equivalents	\$ 4,520,598	\$ 1,279,356	\$ 416,852	\$ 2,905,033	\$ 1,140,375	\$ 10,262,214
Receivables:						
Ambulance (net)	271,410	-	-	-	-	271,410
Property taxes (net)	124,210	-	40,445	-	-	164,655
Sales taxes	400,295	-	-	-	-	400,295
Franchise fees	37,457	-	-	-	-	37,457
Hotel occupancy taxes	-	-	-	-	35,502	35,502
Other governments	22,302	-	6,175	-	-	28,477
Other	99,679	-	-	-	-	99,679
Due from other funds	45,262	-	-	-	3,121	48,383
Other assets	48,877	-	-	-	-	48,877
Restricted assets:						
Cash and cash equivalents	116,066	-	-	-	-	116,066
Total assets	\$ 5,686,156	\$ 1,279,356	\$ 463,472	\$ 2,905,033	\$ 1,178,998	\$ 11,513,015
Liabilities, deferred inflows of resources, and fund balances						
Liabilities:						
Accounts payable	\$ 147,245	\$ -	\$ -	\$ -	\$ 1,031	\$ 148,276
Taxes payable	277	-	-	-	-	277
Due to other funds	5,249	-	-	-	43,814	49,063
Due to component unit	134,289	-	-	-	-	134,289
Due to others	-	-	-	-	71,896	71,896
Unearned revenues	-	1,278,947	-	-	-	1,278,947
Total liabilities	287,060	1,278,947	-	-	116,741	1,682,748
Deferred inflows of resources:						
Unavailable revenues	347,865	-	37,968	-	-	385,833
Fund balances:						
Restricted	228,330	409	425,504	2,905,033	1,062,257	4,621,533
Committed	108,669	-	-	-	-	108,669
Unassigned	4,714,232	-	-	-	-	4,714,232
Total fund balances	5,051,231	409	425,504	2,905,033	1,062,257	9,444,434
Total liabilities, deferred inflows of resources, and fund balances	\$ 5,686,156	\$ 1,279,356	\$ 463,472	\$ 2,905,033	\$ 1,178,998	\$ 11,513,015

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, 2021

Total fund balances - governmental funds (Exhibit A-3)		\$ 9,444,434
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	\$ 11,220,133	
Related accumulated depreciation	<u>5,106,699</u>	6,113,434
Property taxes receivable are not available to pay for current period expenditures and therefore are deferred inflows of resources in the funds.		154,634
Ambulance fees receivable are not available to pay for current period expenditures and therefore are deferred inflows of resources in the funds.		231,199
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.		110,783
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	877,800	
Bond premiums	96,775	
Capital leases	388,249	
Compensated absences	<u>439,817</u>	(1,802,641)
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:		(9,795)
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	297,171	
Net pension liability	(1,033,001)	
Deferred inflows of resources - pension plan related	<u>(631,696)</u>	(1,367,526)
The City's total OPEB (other post-employment benefit) liability and related deferred outflows and inflows related to the Supplemental Death Benefit Fund (SDBF) from the Texas Municipal Retirement System do not meet criteria to be reported in the governmental funds financial statements. These items consist of:		
Deferred outflows of resources - OPEB plan related	78,100	
Total OPEB liability	(372,601)	
Deferred inflows of resources - OPEB plan related	<u>(39,519)</u>	(334,020)
The assets and liabilities of the internal service funds are included in the governmental activities in the Statement of Net Position.		<u>1,523,456</u>
Total net position - governmental activities (Exhibit A-1)		<u><u>\$ 14,063,958</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, 2021

	General	Grant Fund	Debt Service	Electric Trust Principal	Other Governmental	Total Governmental Funds
Revenues						
Property taxes	\$ 1,795,954	\$ -	\$ 500,981	\$ -	\$ -	\$ 2,296,935
Franchise fees	589,077	-	-	-	-	589,077
Sales taxes	1,509,091	-	-	-	-	1,509,091
Hotel occupancy taxes	-	-	-	-	408,986	408,986
Other taxes	16,613	-	-	-	-	16,613
Licenses and permits	29,686	-	-	-	-	29,686
Cemetery income	61,350	-	-	-	-	61,350
Contracts	243,503	-	-	-	-	243,503
Swimming pool	65,409	-	-	-	-	65,409
Ambulance service	573,213	-	-	-	-	573,213
Administrative charges to other funds	279,964	-	-	-	-	279,964
Fines and fees	145,823	-	-	-	6,281	152,104
Grants and donations	449,927	-	-	-	90,176	540,103
Investment earnings	22,688	409	2,484	14,516	5,307	45,404
Other revenues	332,082	-	566	-	16,380	349,028
Total revenues	6,114,380	409	504,031	14,516	527,130	7,160,466
Expenditures						
General government	888,583	-	-	-	3,174	891,757
Public safety	3,591,255	-	-	-	6,262	3,597,517
Public works	987,997	-	-	-	-	987,997
Cemetery and parks	698,247	-	-	-	-	698,247
Subsidies, donations and other	671,745	-	-	-	-	671,745
Christmas decorations	-	-	-	-	6,185	6,185
Civic and cultural	-	-	-	-	154,434	154,434
Economic development	-	-	-	-	103,303	103,303
Capital outlay	493,671	-	-	-	40,000	533,671
Debt service:						
Principal	59,717	-	45,916	-	-	105,633
Interest charges	5,643	-	34,018	-	-	39,661
Total expenditures	7,396,858	-	79,934	-	313,358	7,790,150
Excess of revenues over (under) expenditures	(1,282,478)	409	424,097	14,516	213,772	(629,684)
Other Financing Sources (Uses)						
Proceeds from issuance of capital lease	225,931	-	-	-	-	225,931
Proceeds from sale of capital assets	18,720	-	-	-	-	18,720
Proceeds from sale of perpetual care spaces	-	-	-	-	1,620	1,620
Transfers in	2,233,552	-	-	-	-	2,233,552
Transfers out	-	-	(417,591)	(10,885)	(153,000)	(581,476)
Total other financing sources (uses)	2,478,203	-	(417,591)	(10,885)	(151,380)	1,898,347
Net change in fund balance	1,195,725	409	6,506	3,631	62,392	1,268,663
Fund balances - beginning	3,855,506	-	418,998	2,901,402	999,865	8,175,771
Fund balances - ending	\$ 5,051,231	\$ 409	\$ 425,504	\$ 2,905,033	\$ 1,062,257	\$ 9,444,434

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, 2021

Net change in fund balances - total governmental funds (Exhibit A-5)		\$ 1,268,663
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	\$ 533,671	
Depreciation expense for the year	<u>383,208</u>	150,463
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	(241)	
Ambulance fees	18,253	
Franchise fees	<u>(7,771)</u>	10,241
This issuance of long-term debt is reported in the governmental funds as an other source; however, it is reported as a long-term liability in the government-wide financial statements. The total capital lease issuance during the year was:		(225,931)
Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. Principal payments during the year were:		
Bonds payable	45,916	
Capital leases payable	<u>59,717</u>	105,633
Accrued interest payable from the beginning of the year to the end of the year changed by:		(2,989)
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:		(54,400)
The amortization of the bond premium for the year was:		6,672
The City participates in an agent multiple-employer defined benefit pension plan. Contributions to the plan are expenditures at the fund level when payments are due. At the government-wide level, pension expenses are recognized on an actuarial basis. Payments were more than the actuarial expense in the current year.		495,274
The City participates in a single-employer defined benefit OPEB plan. Contributions to the plan are expenditures at the fund level when payments are due. At the government-wide level, OPEB expenses are recognized on an actuarial basis. Payments were less than the actuarial expense in the current year.		(20,956)
The internal service funds' activities related to the General Fund are included in the Statement of Activities of the governmental activities.		<u>78,285</u>
Change in net position of governmental activities (Exhibit A-2)		<u>\$ 1,810,955</u>

See accompanying notes to the basic financial statements.

THE CITY OF VERNON, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2021

	Enterprise Fund	Internal Service Funds
	Utility Fund	
Assets		
Current assets:		
Cash and cash equivalents	\$ 8,427,023	\$ 1,372,166
Receivables:		
Customers (net)	679,494	-
Due from other funds	4,552	-
Other assets	450	7,347
Note receivable, current portion	-	98,047
Restricted assets:		
Cash and cash equivalents	390,152	-
Total current assets	<u>9,501,671</u>	<u>1,477,560</u>
Long-term assets:		
Note receivable, net of current portion	-	317,485
Capital assets not being depreciated	735,940	-
Capital assets being depreciated (net)	17,376,647	-
Total long-term assets	<u>18,112,587</u>	<u>317,485</u>
Total assets	<u>27,614,258</u>	<u>1,795,045</u>
Deferred Outflows of Resources:		
Pension plan related	75,500	-
OPEB plan related	19,843	-
Deferred loss on refunding debt	204,529	-
Total deferred outflows of resources	<u>299,872</u>	<u>-</u>
Liabilities		
Current liabilities:		
Accounts payable	305,045	111,501
Taxes payable	8,915	-
Due to other funds	3,872	-
Accrued interest payable	11,829	-
Unearned revenues	11,486	-
Customer deposits	240,612	-
Current maturities of long-term obligations	523,374	-
Total current liabilities	<u>1,105,133</u>	<u>111,501</u>
Long-term liabilities:		
Long-term obligations, less current maturities	3,168,260	-
Net pension liability	262,462	-
Total OPEB liability	94,669	-
Total long-term liabilities	<u>3,525,391</u>	<u>-</u>
Total liabilities	<u>4,630,524</u>	<u>111,501</u>
Deferred Inflows of Resources:		
Pension plan related	160,499	-
OPEB plan related	10,041	-
Total deferred inflows of resources	<u>170,540</u>	<u>-</u>
Net Position		
Net investment in capital assets	15,120,173	-
Restricted	3,184,064	-
Unrestricted	4,808,829	1,683,544
Total net position	<u>23,113,066</u>	<u>\$ 1,683,544</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	160,088	
Net position of business-type activities	<u>\$ 23,273,154</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, 2021

	Enterprise Fund	Internal Service Funds
	Utility Fund	
Operating revenues		
Water revenues	\$ 4,148,001	\$ -
Sewer revenues	2,404,619	-
Sanitation revenues	1,646,429	-
Charges and fees	-	929,556
Late fees	136,127	-
Other revenues	35,749	-
Total operating revenues	<u>8,370,925</u>	<u>929,556</u>
Operating expenses		
Billing and collection	269,065	-
Water	1,437,758	-
Sewer	675,056	-
Sanitation	1,777,132	-
Insurance claims and related	-	850,986
Bad debts	129,534	-
Depreciation	826,328	-
Other operating expenses	60,566	-
Total operating expenses	<u>5,175,439</u>	<u>850,986</u>
Operating income	<u>3,195,486</u>	<u>78,570</u>
Nonoperating revenues (expenses)		
Interest income	43,466	18,079
Rent income	42,267	-
Bad debt recoveries	17,947	-
Gain on disposal of capital assets	2,050	-
Interest expense	(110,007)	-
Total nonoperating revenues (expenses)	<u>(4,277)</u>	<u>18,079</u>
Income before transfers	<u>3,191,209</u>	<u>96,649</u>
Transfers in	417,591	-
Transfers out	(2,069,667)	-
Net transfers	<u>(1,652,076)</u>	<u>-</u>
Change in net position	1,539,133	96,649
Net position - beginning	<u>21,573,933</u>	<u>1,586,895</u>
Net position - ending	23,113,066	<u>\$ 1,683,544</u>
Reconciliation to government-wide statement of activities:		
Adjustment to reflect the consolidation of the Internal Service Funds' activities related to the Enterprise Fund	18,364	
Change in net position of the business-type activities	<u>\$ 1,557,497</u>	

See accompanying notes to the basic financial statements.

EXHIBIT A-9

THE CITY OF VERNON, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
SEPTEMBER 30, 2021

	Enterprise Fund	Internal Service Funds
	Utility Fund	
Cash flows from operating activities:		
Received from customers	\$ 8,333,094	\$ 929,556
Payments to suppliers	(3,322,640)	-
Payments to employees	(1,082,372)	-
Payments to claimants/beneficiaries	-	(829,857)
Net cash provided by operating activities	<u>3,928,082</u>	<u>99,699</u>
Cash flows from noncapital financing activities:		
Bad debt recoveries	17,947	-
Transfers from other funds	417,591	-
Transfers to other funds	(2,069,667)	-
Net cash used by noncapital financing activities	<u>(1,634,129)</u>	<u>-</u>
Cash flows from capital and related financing activities:		
Proceeds from sale of capital assets	2,050	-
Acquisition and construction of capital assets	(1,074,307)	-
Principal paid on long-term debt	(424,713)	-
Interest paid on long-term debt	(110,011)	-
Net cash used by capital and related financing activities	<u>(1,606,981)</u>	<u>-</u>
Cash flows from investing activities:		
Principal payments on note receivable	-	95,629
Interest on investments	43,466	17,919
Rents received	42,267	-
Net cash provided by investing activities	<u>85,733</u>	<u>113,548</u>
Net Increase in Cash and Cash Equivalents	<u>772,705</u>	<u>213,247</u>
Cash and Cash Equivalents - Beginning	<u>8,044,470</u>	<u>1,158,919</u>
Cash and Cash Equivalents - Ending	<u><u>\$ 8,817,175</u></u>	<u><u>\$ 1,372,166</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating income	\$ 3,195,486	\$ 78,570
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	826,328	-
Amortization	(10,821)	-
(Increase) decrease in current assets and deferred outflows of resources:		
Customer utility receivables	(50,321)	-
Deferred outflows of resources	(10,678)	-
Increase (decrease) in current liabilities and deferred inflows of resources:		
Accounts payable	55,207	21,129
Taxes payable	556	-
Due to other funds	874	-
Customer deposits	11,616	-
Compensated absences	738	-
Net pension liability	(87,491)	-
Total OPEB liability	10,715	-
Deferred inflows of resources	(14,127)	-
Total adjustments	<u>732,596</u>	<u>21,129</u>
Net cash provided by operating activities	<u><u>\$ 3,928,082</u></u>	<u><u>\$ 99,699</u></u>
Reconciliation of Cash and Cash Equivalents on the Statement of Net Position to the Statement of Cash Flows:		
Cash and cash equivalents	\$ 8,427,023	\$ 1,372,166
Restricted assets - cash and cash equivalents	390,152	-
Total cash and cash equivalents - ending	<u><u>\$ 8,817,175</u></u>	<u><u>\$ 1,372,166</u></u>

See accompanying notes to the basic financial statements.

THE CITY OF VERNON, TEXAS
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
SEPTEMBER 30, 2021

	Custodial Funds
Assets	
Cash and cash equivalents	\$ 45,339
Receivables:	
Sales taxes	10,166
Total assets	<u>55,505</u>
Liabilities	
Accounts payable	-
Total liabilities	<u>-</u>
Net Position	
Restricted net position	55,505
Total net position	<u><u>\$ 55,505</u></u>

See accompanying notes to the basic financial statements.

THE CITY OF VERNON, TEXAS
STATEMENT OF CHANGES IN NET POSITION
FIDUCIARY FUNDS
SEPTEMBER 30, 2021

	<u>Custodial Funds</u>
Additions	\$ 52,287
Deductions	<u>10,402</u>
Change in net position	<u>41,885</u>
Net position, beginning, as originally stated	-
Prior period adjustment	<u>13,620</u>
Net position, beginning, as restated	<u>13,620</u>
Net position, ending	<u><u>\$ 55,505</u></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, 2021

	Budgeted Amounts		Actual	Variance With Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Property taxes	\$ 1,795,254	\$ 1,789,684	\$ 1,795,954	\$ 6,270
Franchise fees	537,000	530,000	589,077	59,077
Sales taxes	1,076,000	1,450,000	1,509,091	59,091
Other taxes	8,100	16,000	16,613	613
Licenses and permits	16,000	30,000	29,686	(314)
Cemetery income	41,117	55,400	61,350	5,950
Contracts	241,718	243,044	243,503	459
Swimming pool	78,000	65,200	65,409	209
Ambulance service	440,246	480,000	573,213	93,213
Administrative charges to other funds	300,035	300,035	279,964	(20,071)
Fines and fees	97,937	130,000	145,823	15,823
Grants and donations	-	449,927	449,927	-
Investment earnings	17,900	21,950	22,688	738
Other revenues	114,800	302,410	332,082	29,672
Total revenues	<u>4,764,107</u>	<u>5,863,650</u>	<u>6,114,380</u>	<u>250,730</u>
Expenditures				
General government	921,862	973,659	888,583	85,076
Public safety	3,725,318	3,790,818	3,591,255	199,563
Public works	1,096,565	1,095,067	987,997	107,070
Cemetery and parks	567,313	730,743	698,247	32,496
Subsidies, donations and other	510,722	701,392	671,745	29,647
Capital outlay	155,200	262,500	493,671	(231,171)
Debt service:				
Principal	33,684	59,598	59,717	(119)
Interest charges	6,676	5,763	5,643	120
Total expenditures	<u>7,017,340</u>	<u>7,619,540</u>	<u>7,396,858</u>	<u>222,682</u>
Excess of revenues over (under) expenditures	<u>(2,253,233)</u>	<u>(1,755,890)</u>	<u>(1,282,478)</u>	<u>473,412</u>
Other Financing Sources				
Proceeds from issuance of capital leases	-	-	225,931	225,931
Proceeds from sale of capital assets	67,000	18,000	18,720	720
Transfers in	2,186,233	2,120,667	2,233,552	112,885
Total other financing sources	<u>2,253,233</u>	<u>2,138,667</u>	<u>2,478,203</u>	<u>339,536</u>
Net change in fund balance	-	382,777	1,195,725	812,948
Fund balances - beginning	<u>3,855,506</u>	<u>3,855,506</u>	<u>3,855,506</u>	<u>-</u>
Fund balances - ending	<u>\$ 3,855,506</u>	<u>\$ 4,238,283</u>	<u>\$ 5,051,231</u>	<u>\$ 812,948</u>

See accompanying notes to the basic financial statements.

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021

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, 2021

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, Grant 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, 2021

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 Grant Fund is used to account for the federal American Rescue Plan grant.

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

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

The City reports the following major enterprise fund:

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

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

Other Governmental Funds include the Special Revenue Funds.

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

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

The Custodial Funds are contributions by employees as additional savings and are held in a purely custodial capacity. Custodial 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 custodial 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, 2021

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, 2021

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 \$.41818 per \$100 in assessed valuation. Additionally, the City levied a tax for debt service of \$.11604 per \$100 in assessed valuation; therefore, the total tax rate was \$.53422 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, 2021

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

6. Deferred Outflows/Inflows of Resources

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

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflow of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has three types of items that qualify for reporting in this category. Property taxes receivable (\$154,634) and ambulance receivables (\$231,199) 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, 2021

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, 2021

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.

14. Other Post-Employment Benefits

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

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2021

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

15. New Accounting Standard Adopted

For fiscal year 2021, the City implemented GASB Statement No. 84, "Fiduciary Activities". GASB Statement No. 84 establishes specific criteria for identifying activities that should be reported as fiduciary activities and clarifies whether and how business-type activities should report their fiduciary activities. Due to the implementation of GASB Statement No. 84, the City will no longer be reporting agency funds in its fiduciary financial statements. The City reviewed its agency funds for classification under GASB No. 84 and determined that the funds will be reported in the new fiduciary classification of custodial funds. This reclassification resulted in the restatement of the District's fiduciary financial statements.

2. COMPLIANCE AND ACCOUNTABILITY

A. Finance-Related Legal and Contractual Provisions

There were no violations of finance-related legal and contractual provisions for the year ended September 30, 2021, except for over-expended General Fund budgeted amounts in capital outlay by \$231,171 and debt service principal by \$119.

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

As of September 30, 2021, there were no funds with a deficit fund balance or deficit net position balance.

3. DEPOSITS AND INVESTMENTS

A. Deposits

All of the City's demand and time depository accounts are held in local banking institutions. At September 30, 2021, the carrying amount of the City's deposits (cash and interest-bearing savings accounts included in temporary investments) was \$20,612,960 and the bank balance was \$20,567,864, including fiduciary accounts. The City's cash deposits at September 30, 2021, and during the year ended September 30, 2021, 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, 2021, the carrying amount of the Corporation's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$2,187,130 and the bank balance was \$2,187,130. The Corporation's cash deposits at September 30, 2021, and during the year ended September 30, 2021, 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 CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2021

3. DEPOSITS AND INVESTMENTS (CONT'D.)

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, 2021 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>\$2,904,532</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. The fair value of the money market and savings accounts at September 30, 2021 was determined based on Level 2 inputs. The City estimates the fair value of the money market and savings accounts using inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

C. Analysis of Specific Deposit and Investment Risks

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

1. Credit Risk

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

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2021

3. DEPOSITS AND INVESTMENTS (CONT'D.)

2. Custodial Credit Risk

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

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

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

3. Concentration of Credit Risk

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

4. Interest Rate Risk

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

5. Foreign Currency Risk

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

4. RECEIVABLES

Receivables and related allowances for uncollectibles consisted of the following items on September 30, 2021:

	<u>Gross</u> <u>Receivable</u>	<u>Allowance</u>	<u>Net</u> <u>Receivable</u>
General Fund:			
Ambulance	\$ 498,022	\$ 226,612	\$271,410
Property taxes	178,674	54,464	124,210
Sales taxes	400,295	-	400,295
Franchise fees	37,457	-	37,457
Other governments	22,302	-	22,302
Other	99,679	-	99,679
Debt Service Fund:			
Property taxes	47,838	7,393	40,445
Other governments	6,175	-	6,175
Other Governmental Funds:			
Hotel occupancy taxes	35,502	-	35,502
Utility Fund:			
Customers	742,876	63,382	679,494

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2021

4. RECEIVABLES (CONT'D.)

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

5. CAPITAL ASSETS

Capital asset activity for governmental activities for the year ended September 30, 2021 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	<u>\$ 981,029</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 981,029</u>
Capital assets being depreciated:				
Buildings and improvements	2,320,957	27,000	-	2,347,957
Infrastructure	2,812,648	-	-	2,812,648
Equipment, furniture, fixtures, etc.	2,054,721	433,731	14,908	2,473,544
Vehicles	<u>2,688,174</u>	<u>72,940</u>	<u>156,159</u>	<u>2,604,955</u>
Total capital assets being depreciated	<u>9,876,500</u>	<u>533,671</u>	<u>171,067</u>	<u>10,239,104</u>
Less accumulated depreciation for:				
Buildings and improvements	1,064,034	54,225	-	1,118,259
Infrastructure	447,280	57,765	-	505,045
Equipment, furniture, fixtures, etc.	1,536,961	118,365	14,908	1,640,418
Vehicles	<u>1,846,283</u>	<u>152,853</u>	<u>156,159</u>	<u>1,842,977</u>
Total accumulated depreciation	<u>4,894,558</u>	<u>383,208</u>	<u>171,067</u>	<u>5,106,699</u>
Total capital assets being depreciated, net	<u>4,981,942</u>	<u>150,463</u>	<u>-</u>	<u>5,132,405</u>
Governmental activities capital assets, net	<u>\$5,962,971</u>	<u>\$150,463</u>	<u>\$ -</u>	<u>\$ 6,113,434</u>

Depreciation expense was charged to departments as follows:

General Government	\$ 18,706
Public Safety	244,922
Public Works	58,413
Cemetery and Parks	<u>61,167</u>
	<u>\$383,208</u>

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2021

5. CAPITAL ASSETS (CONT'D.)

Business-type activities:

	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets not being depreciated:				
Land	\$ 721,690	\$ -	\$ -	\$ 721,690
Construction in progress	100,605	496,246	582,601	14,250
Total capital assets not being depreciated	<u>822,295</u>	<u>496,246</u>	<u>582,601</u>	<u>735,940</u>
Capital assets being depreciated:				
Buildings and improvements	29,862,390	877,382	30,000	30,709,772
Equipment, furniture, fixtures, etc.	2,366,022	253,514	-	2,619,536
Vehicles	396,387	29,766	-	426,153
Total capital assets being depreciated	<u>32,624,799</u>	<u>1,160,662</u>	<u>30,000</u>	<u>33,755,461</u>
Less accumulated depreciation for:				
Buildings and improvements	13,903,007	661,063	30,000	14,534,070
Equipment, furniture, fixtures, etc.	1,352,725	139,377	-	1,492,102
Vehicles	326,754	25,888	-	352,642
Total accumulated depreciation	<u>15,582,486</u>	<u>826,328</u>	<u>30,000</u>	<u>16,378,814</u>
Total capital assets being depreciated, net	<u>17,042,313</u>	<u>334,334</u>	<u>-</u>	<u>17,376,647</u>
Business-type activities capital assets, net	<u>\$17,864,608</u>	<u>\$ 830,580</u>	<u>\$582,601</u>	<u>\$18,112,587</u>

Depreciation expense was charged to departments as follows:

Business-type activities:

Water	\$424,456
Sewer	374,351
Sanitation	<u>27,521</u>
	<u>\$826,328</u>

Business Development Corporation:

	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets not being depreciated:				
Land	\$ 99,092	\$ -	\$ -	\$ 99,092
Website development (in progress)	11,244	-	11,244	-
Total capital assets not being depreciated	<u>110,336</u>	<u>-</u>	<u>11,244</u>	<u>99,092</u>
Capital assets being depreciated:				
Buildings and improvements	547,517	39,500	-	587,017
Equipment, furniture, fixtures, etc.	21,650	-	-	21,650
Total capital assets being depreciated	<u>569,167</u>	<u>39,500</u>	<u>-</u>	<u>608,667</u>
Less accumulated depreciation for:				
Buildings and improvements	238,458	14,617	-	253,075
Equipment, furniture, fixtures, etc.	15,338	901	-	16,239
Total accumulated depreciation	<u>253,796</u>	<u>15,518</u>	<u>-</u>	<u>269,314</u>
Total capital assets being depreciated, net	<u>315,371</u>	<u>23,982</u>	<u>-</u>	<u>339,353</u>
BDC capital assets, net	<u>\$425,707</u>	<u>\$ 23,982</u>	<u>\$ 11,244</u>	<u>\$438,445</u>

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2021

6. INTERFUND BALANCES AND ACTIVITY

A. Due To and From Other Funds

Balances due to and due from other funds at September 30, 2021 consisted of the following:

<u>Due to Fund</u>	<u>Due From Fund</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	Other Governmental Funds	\$43,814	Short-term borrowings
General Fund	Enterprise Fund	1,448	Short-term borrowings
Other Governmental Funds	General Fund	697	Short-term borrowings
Other Governmental Funds	Enterprise Fund	2,424	Short-term borrowings
Enterprise Fund	General Fund	<u>4,552</u>	Short-term borrowings
Total		<u>\$52,935</u>	

All amounts are scheduled to be repaid within one year.

B. Transfers To and From Other Funds

Transfers to and from other funds at September 30, 2021 consisted of the following:

<u>Transfers To</u>	<u>Transfers From</u>	<u>Amount</u>	<u>Reason</u>
General Fund	Electric Trust Principal	\$ 10,885	Interest transfer
General Fund	Other Governmental Funds	153,000	Park contributions & Main St.
General Fund	Enterprise Fund	2,069,667	Payment in lieu of taxes
Enterprise Fund	Debt Service Fund	<u>417,591</u>	Debt service payments
Total		<u>\$2,651,143</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.	\$415,532
Related accrued interest at September 30, 2021	<u>7,187</u>
Total interfund long-term borrowings at September 30, 2021	<u>\$422,719</u>

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2021

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

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

<u>Year Ended September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 98,047	\$ 9,270	\$107,317
2023	100,526	6,791	107,317
2024	103,069	4,248	107,317
2025	105,675	1,642	107,317
2026	<u>8,215</u>	<u>17</u>	<u>8,232</u>
Totals	<u>\$415,532</u>	<u>\$21,968</u>	<u>\$437,500</u>

This interfund borrowing is reported in the fund level financial statements as a note receivable and accrued interest income in the Internal Service Fund and as long-term debt and accrued interest payable in the Utility Fund. However, it is netted into the internal balance captions in the government-wide Statement of Net Position at September 30, 2021.

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, 2021 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	\$ 923,716	\$ -	\$ 45,916	\$ 877,800	\$ 60,771
Bond premiums	103,447	-	6,672	96,775	-
Capital leases	222,035	225,931	59,717	388,249	75,993
Compensated absences *	<u>385,417</u>	<u>234,444</u>	<u>180,044</u>	<u>439,817</u>	<u>197,917</u>
Total governmental activities	<u>\$1,634,615</u>	<u>\$460,375</u>	<u>\$292,349</u>	<u>\$1,802,641</u>	<u>\$334,681</u>
<u>Business-type Activities:</u>					
Bonds payable	\$3,081,284	\$ -	\$309,084	\$2,772,200	\$359,229
Bond premiums	386,405	-	24,918	361,487	-
Note payable	59,975	-	20,000	39,975	20,000
Compensated absences *	<u>101,703</u>	<u>46,325</u>	<u>45,588</u>	<u>102,440</u>	<u>46,098</u>
Total business-type activities	<u>\$3,629,367</u>	<u>\$ 46,325</u>	<u>\$399,590</u>	<u>\$3,276,102</u>	<u>\$425,327</u>
<u>Business Development Corporation</u>					
Notes payable	<u>\$ 987,666</u>	<u>\$ -</u>	<u>\$176,170</u>	<u>\$811,496</u>	<u>\$181,982</u>

* - Other long-term liabilities

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2021

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

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

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

B. Outstanding Bonds

Bonds payable at September 30, 2021, 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 9/30/21</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
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	\$ 400,000	\$ -	\$ 400,000
					55,257	-	55,257
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	3,250,000	877,800	2,372,200
					<u>403,005</u>	<u>96,775</u>	<u>306,230</u>
Total all bonds					<u>\$4,108,262</u>	<u>\$974,575</u>	<u>\$3,133,687</u>

C. Debt Service Requirements on Long-Term Bonds

Debt service requirements on long-term bonds at September 30, 2021 are as follows:

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 60,771	\$ 32,418	\$ 93,189
2023	62,121	30,574	92,695
2024	55,369	28,812	84,181
2025	56,719	26,847	83,566
2026	60,771	24,497	85,268
2027-2031	316,008	83,730	399,738
2032-2036	<u>266,041</u>	<u>27,576</u>	<u>293,617</u>
Totals	<u>\$877,800</u>	<u>\$254,454</u>	<u>\$1,132,254</u>

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2021

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>
2022	\$ 359,229	\$ 96,682	\$ 455,911
2023	372,879	85,701	458,580
2024	149,631	77,863	227,494
2025	153,281	72,553	225,834
2026	164,229	66,203	230,432
2027-2031	853,992	226,270	1,080,262
2032-2036	<u>718,959</u>	<u>74,524</u>	<u>793,483</u>
Totals	<u>\$2,772,200</u>	<u>\$ 699,796</u>	<u>\$3,471,996</u>

D. Capital Lease

The commitment under the capitalized lease agreement for equipment provides for minimum future lease payments as of September 30, 2021 as follows:

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>
2022	\$ 84,694
2023	84,693
2024	84,693
2025	84,694
2026	<u>84,694</u>
Total minimum lease payments	423,468
Less amount representing interest	(35,219)
Present value of minimum lease payments	<u>\$388,249</u>

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

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

	<u>Governmental Activities</u>
Equipment, furniture, fixtures, etc.	\$225,931
Vehicles	543,393
Less accumulated depreciation	(254,298)
Net	<u>\$515,026</u>

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2021

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

E. Note Payable

The City has a note payable at September 30, 2021 as follows:

Business-type Activities:

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

\$ 39,975

The debt service requirements on the note payable at September 30, 2021 are as follows:

<u>Year Ending September 30,</u>	<u>Business-type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$20,000	\$ 1,599	\$21,599
2023	19,975	799	20,774
Totals	<u>\$39,975</u>	<u>\$ 2,398</u>	<u>\$42,373</u>

F. Combined Debt Service Requirements

Debt service requirements on all long-term debt at September 30, 2021 are as follows:

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 136,764	\$ 41,119	\$ 177,883
2023	136,382	41,006	177,388
2024	132,110	36,764	168,874
2025	136,018	32,242	168,260
2026	142,726	27,236	169,962
2027-2031	316,008	83,730	399,738
2032-2036	266,041	27,576	293,617
Totals	<u>\$1,266,049</u>	<u>\$289,673</u>	<u>\$1,555,722</u>

<u>Year Ending September 30,</u>	<u>Business-type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 379,229	\$ 98,281	\$ 477,510
2023	392,854	86,500	479,354
2024	149,631	77,863	227,494
2025	153,281	72,553	225,834
2026	164,229	66,203	230,432
2027-2031	853,992	226,270	1,080,262
2032-2036	718,959	74,524	793,483
Totals	<u>\$2,812,175</u>	<u>\$ 702,194</u>	<u>\$3,514,369</u>

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2021

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

G. Continuing Disclosure

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

H. BDC Debt

The BDC has notes payable outstanding at September 30, 2021 as follows:

The note payable to the Texas Leverage Fund (#1) is payable in monthly installments of \$6,361 including interest at 3.25% per annum and is secured by sales tax receipts collected by BDC. The note matures in March 2025. \$252,210

The note payable to the Texas Leverage Fund (#2) is payable in monthly installments of \$10,777 including interest at 3.25% per annum and is secured by sales tax receipts collected by BDC. The note matures in April 2026. 559,286

Total \$811,496

The debt service requirements on the notes payable at September 30, 2021 are as follows:

<u>Year Ending September 30,</u>	<u>BDC Notes Payable</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$181,982	\$ 23,679	\$205,661
2023	187,985	17,675	205,660
2024	194,186	11,474	205,660
2025	162,166	5,327	167,493
2026	85,177	1,042	86,219
Totals	<u>\$811,496</u>	<u>\$ 59,197</u>	<u>\$870,693</u>

8. NET POSITION AND FUND BALANCES

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

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2021

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

Net Position:	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
Restricted for:				
Debt service	\$ 425,504	\$3,184,064	\$ 3,609,568	\$ -
Public improvements:				
Expendable	108,090	-	108,090	-
Nonexpendable	2,905,033	-	2,905,033	-
Perpetual care:				
Nonexpendable	249,044	-	249,044	-
Municipal court building security	31,887	-	31,887	-
Municipal court technology	31,214	-	31,214	-
Public, education, and government access	120,240	-	120,240	-
Grants	1,367	-	1,367	-
Public safety	23,604	-	23,604	-
Parks and aquatics center	7,375	-	7,375	-
Christmas decorations	10,823	-	10,823	-
Tourism	<u>707,352</u>	<u>-</u>	<u>707,352</u>	<u>-</u>
Total restricted net position	<u>\$4,621,533</u>	<u>\$3,184,064</u>	<u>\$7,805,597</u>	<u>\$ -</u>

Fund Balances:	Governmental Funds				
	General	Grant Fund	Debt Service Fund	Electric Trust Principal	Other Governmental
Restricted for:					
Public improvements	\$108,090	\$ -	\$ -	\$2,905,033	\$ -
Public, education, and government access	120,240	-	-	-	-
Debt service	-	-	425,504	-	-
Municipal court building security	-	-	-	-	31,887
Municipal court technology	-	-	-	-	31,214
Grants	-	409	-	-	958
Public safety	-	-	-	-	23,604
Parks and aquatics center	-	-	-	-	7,375
Christmas decorations	-	-	-	-	10,823
Tourism	-	-	-	-	707,352
Perpetual care	-	-	-	-	249,044
Total restricted fund balance	<u>\$228,330</u>	<u>\$ 409</u>	<u>\$425,504</u>	<u>\$2,905,033</u>	<u>\$1,062,257</u>
Committed for:					
Main Street	<u>\$108,669</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
					<u>\$ 108,669</u>

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2021

9. SELF-FUNDED WORKERS COMPENSATION

During the fiscal year ended September 30, 1992, the City began a self-insurance program for workers compensation. The Workers Compensation Fund, an internal service fund, was established for this program. Under prior arrangements, this program was administered by the Texas Municipal League. Stop-loss insurance is carried to cover claims in excess of \$250,000 in the aggregate. The City terminated the self-insurance program and obtained commercial coverage after that point during the year ended September 30, 2016. During the fiscal year ended September 30, 2021, the Workers Compensation Fund incurred \$2,000 of claims, stop-loss insurance premiums, and administrative costs. During the same period, the Fund did not receive any charges and fees from the General Fund, the Enterprise Fund or the BDC. Settled claims have not exceeded commercial coverage to date.

As of September 30, 2021, the reserve was \$0. Changes in the claims liability amounts in the fiscal years ended September 30, 2020 and 2021 were:

	Beginning of Year <u>Liability</u>	Current Year Claims and Changes in <u>Estimates</u>	Claims and <u>Expenses Paid</u>	Balance at <u>Year End</u>
FYE September 30, 2020	\$ -	\$ 2,000	\$ 2,000	\$ -
FYE September 30, 2021	\$ -	\$ 2,000	\$ 2,000	\$ -

10. DEFINED BENEFIT PENSION PLAN

A. Plan Description

The City participates as one of 895 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmrs.com.

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

B. Benefits Provided

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

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

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2021

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

Employees Covered by Benefit Terms

At the December 31, 2020 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	72
Inactive employees entitled to but not yet receiving benefits	119
Active employees	88

C. Contributions

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

Employees of the City were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City were 12.29% and 12.20% in calendar years 2020 and 2021, respectively. The City's contributions to TMRS for the year ended September 30, 2021 were \$496,757, and were equal to the required contributions.

D. Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2020 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, 2020 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	2.35% per year
Investment rate of return	6.75%, net of pension plan investment expense, including inflation

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

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2021

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

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, TMRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of real rates of return for each major asset class in fiscal year 2021 are summarized in the following table:

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

Discount Rate

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

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2021

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

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, 2019	\$22,554,531	\$20,784,413	\$1,770,118
Changes for the year:			
Service cost	559,614	-	559,614
Interest on total pension liability	1,502,802	-	1,502,802
Change in benefit terms	-	-	-
Difference between expected and actual experience	(225,959)	-	(225,959)
Change in assumptions	-	-	-
Contributions - employer	-	476,292	(476,292)
Contributions – employee	-	271,281	(271,281)
Net investment income	-	1,574,146	(1,574,146)
Benefit payments, including refunds of employee contributions	(1,141,216)	(1,141,216)	-
Administrative expense	-	(10,209)	10,209
Other changes	-	(398)	398
Balances as of December 31, 2020	<u>\$23,249,773</u>	<u>\$21,954,309</u>	<u>\$1,295,463</u>

Sensitivity Analysis

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

	1% Decrease 5.75%	Current Discount Rate 6.75%	1% Increase 7.75%
Net pension liability	<u>\$4,421,859</u>	<u>\$1,295,463</u>	<u>(\$1,264,227)</u>

Pension Plan Fiduciary Net Position

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

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2021

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

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

For the year ended September 30, 2021, the City recognized pension expense of (\$105,471).

At September 30, 2021, 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	\$ -	\$202,848
Differences in assumption changes	-	5,317
Net difference between projected and actual earnings	-	584,030
Contributions made subsequent to measurement date	<u>372,671</u>	<u>-</u>
Total	<u>\$372,671</u>	<u>\$792,195</u>

\$372,671 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, 2021. 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>	
2021	(\$377,562)
2022	(26,539)
2023	(353,855)
2024	<u>(34,239)</u>
Total	<u>(\$792,195)</u>

11. DEFINED OTHER POSTEMPLOYMENT BENEFIT PLAN

A. Plan Description

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

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2021

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

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

B. Benefits Provided

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

Employees Covered by Benefit Terms

At the December 31, 2020 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	57
Inactive employees entitled to but not yet receiving benefits	21
Active employees	88

C. Total OPEB Liability

The City's Total OPEB Liability is based on an actuarial valuation performed as of December 31, 2020 and a measurement date of December 31, 2020.

Actuarial Assumptions

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

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2021

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

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

Changes in Total OPEB Liability

	<u>Total OPEB Liability</u>
Balances as of December 31, 2019	<u>\$424,654</u>
Changes for the year:	
Service cost	14,727
Interest on total OPEB liability	11,801
Change in benefit terms	-
Difference between expected and actual experience	(35,603)
Change in assumptions or other inputs	57,504
Benefit payments	(5,813)
Net changes	<u>42,616</u>
Balances as of December 31, 2020	<u>\$467,270</u>

Sensitivity Analysis

The following presents the total OPEB liability of the City, calculated using the discount rate of 2.00%, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (1.00%) or 1 percentage point higher (3.00%) than the current rate.

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2021

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

	1% Decrease <u>1.00%</u>	Current Discount Rate <u>2.00%</u>	1% Increase <u>3.00%</u>
Total OPEB liability	<u>\$564,626</u>	<u>\$467,270</u>	<u>\$392,940</u>

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

For the year ended September 30, 2021, the City recognized OPEB expense of \$39,420.

At September 30, 2021, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$41,872
Changes in assumptions	81,448	7,688
Contributions made subsequent to measurement date	<u>16,495</u>	<u>-</u>
Total	<u>\$97,943</u>	<u>\$49,560</u>

\$16,495 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability for the year ending September 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year Ended December 31:</u>	
2021	\$10,348
2022	11,032
2023	9,171
2024	<u>1,337</u>
Total	<u>\$31,888</u>

12. HEALTH CARE COVERAGE

On March 11, 1992, the City began a self-insurance medical program through establishment of the Employee Benefits Trust Fund, an internal service fund. A contract is in effect with Blue Cross Blue Shield of Texas for the administration of the fund. Stop-loss insurance coverage is carried under which the Employee Benefits Trust Fund pays the first \$55,000 of medical expenses per covered person up to an aggregate amount of \$610,046 per year. The insurance provider pays amounts in excess of the aforementioned. Settled claims have not exceeded commercial insurance coverage as of September 30, 2021. Group life insurance premiums are also paid by the Employee Benefits Trust Fund. During the fiscal year ended September 30, 2021, \$852,986 was expended for health benefits, insurance

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2021

12. HEALTH CARE COVERAGE (CONT'D.)

premiums and administrative costs. Charges and fees for the same period amounted to \$929,555, including \$586,194 from the General Fund, \$182,206 from the Enterprise Fund, \$150,407 from employee payroll deductions, \$10,748 from the BDC, and \$0 from terminated employees (COBRA). These amounts were recorded as current expenditures in the charged funds and component unit.

Both the General and Enterprise Funds and the BDC participate in the self-insurance program and make payments to the internal service fund based on estimates of the amounts needed to pay current and prior year claims and other expenses, and to establish a reserve for catastrophic losses. The estimates are derived from the City's historical cost experience. At September 30, 2021, the reserve was \$1,681,544.

The claims liability of \$111,501 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, 2020 and 2021 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, 2020	<u>\$ 145,491</u>	<u>\$828,628</u>	<u>\$883,747</u>	<u>\$ 90,372</u>
FYE September 30, 2021	<u>\$ 90,372</u>	<u>\$852,986</u>	<u>\$831,857</u>	<u>\$111,501</u>

13. COMMITMENTS AND CONTINGENCIES

A. Litigation

No reportable litigation was pending against the City at September 30, 2021.

B. Federal and State Grants – Compliance Audits

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

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2021

14. CLOSURE AND POSTCLOSURE CARE COST

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

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

15. TAX ABATEMENT AGREEMENTS

The City has approved two tax abatement agreements. The first agreement is dated December 21, 2011 with Rhodia, Inc. and the second with Tyson Foods dated January 5, 2021. Both agreements were issued pursuant to the Section 380.001 of the Texas Local Government Code relative to economic development of the City by (a) providing an incentive for already established businesses to expand, modernize, and (b) providing incentive to attract businesses that might not relocate to the community otherwise. In both cases, the agreements were to allow established businesses to expand and modernize.

The Rhodia agreement is a ten-year abatement of its taxable mineral interest for 100% the first four years, 80% year five, 60% year six, 40% year seven, 30% year eight, 20% year nine, and 10% year ten. This is the eighth year of the agreement and the total value loss was \$1,758,180. The reduction in M&O taxes was \$7,352 and I&S taxes was \$2,040.

The Tyson Foods agreement is a five-year abatement of taxable real and personal property for 100% the first year, 80% year two, 60% year three, 40% year four, and 20% year five. No taxes were abated for the year ended September 30, 2021. Tax year 2021, the City's fiscal year end September 30, 2022, is the first year of tax abatement under the agreement.

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

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2021

16. COVID-19 PANDEMIC

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

State and local governments placed restrictions on the operations of businesses and public gatherings to promote health and slow the spread of the virus. The federal government passed several appropriations to address the negative economic impact caused by these restrictions. The City received and expended \$448,272 in federal grant awards during the year ended September 30, 2021 and received an additional \$1,278,947 in federal grant awards during the year ended September 30, 2021 that will be expended in future years. However, the impact of the COVID-19 pandemic on the national, state, and local economies and, ultimately, the City's finances is not known at this time.

17. PRIOR PERIOD ADJUSTMENT

During fiscal year 2021, the City adopted GASB Statement No. 84, Fiduciary Activities. Prior to the implementation of GASB 84, the City's fiduciary funds were reported only in a statement of assets and liabilities – fiduciary funds. After the implementation of GASB 84, the City's fiduciary funds are reported as custodial funds in a statement of net position - fiduciary funds and in a statement of changes in net position - fiduciary funds. The effect of reporting fiduciary funds as custodial funds is an increase to beginning net position of \$13,620 for custodial funds.

REQUIRED SUPPLEMENTARY INFORMATION

EXHIBIT B-1

THE CITY OF VERNON, TEXAS

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

	2014	2015	2016	2017	2018	2019	2020
Total Pension Liability							
Service cost	\$ 628,498	\$ 572,998	\$ 522,433	\$ 492,155	\$ 506,345	\$ 542,719	\$ 559,614
Interest on total pension liability	1,529,732	1,358,771	1,382,533	1,407,208	1,424,443	1,460,532	1,502,802
Changes of benefit terms	-	(2,689,621) ⁽¹⁾	-	-	-	-	-
Difference between expected and actual experience	(672,755)	(206,925)	(376,813)	(454,708)	(209,414)	(204,744)	(225,959)
Changes of assumptions	-	514,583	-	-	-	(19,307)	-
Benefit payments/refunds of contributions	(1,264,777)	(1,156,038)	(1,130,326)	(1,164,600)	(1,228,219)	(1,181,627)	(1,141,216)
Net change in total pension liability	220,698	(1,606,232)	397,827	280,055	493,155	597,573	695,241
Total pension liability, beginning	22,171,455	22,392,153	20,785,921	21,183,748	21,463,803	21,956,958	22,554,531
Total pension liability, ending (a)	<u>\$ 22,392,153</u>	<u>\$ 20,785,921</u>	<u>\$ 21,183,748</u>	<u>\$ 21,463,803</u>	<u>\$ 21,956,958</u>	<u>\$ 22,554,531</u>	<u>\$ 23,249,772</u>
Fiduciary Net Position							
Contributions - employer	\$ 734,220	\$ 687,295	\$ 426,631	\$ 436,406	\$ 450,044	\$ 453,909	\$ 476,292
Contributions - employee	286,327	261,472	255,558	250,552	252,631	264,372	271,281
Net investment income	939,988	25,252	1,142,644	2,436,928	(584,676)	2,841,617	1,574,146
Benefit payments/refunds of contributions	(1,264,777)	(1,156,038)	(1,130,326)	(1,164,600)	(1,228,219)	(1,181,627)	(1,141,216)
Administrative expenses	(9,814)	(15,383)	(12,913)	(12,641)	(11,315)	(16,093)	(10,209)
Other	(807)	(760)	(696)	(640)	(590)	(483)	(399)
Net change in fiduciary net position	685,137	(198,162)	680,898	1,946,005	(1,122,125)	2,361,695	1,169,895
Fiduciary net position, beginning	16,430,966	17,116,103	16,917,941	17,598,839	19,544,844	18,422,719	20,784,414
Fiduciary net position, ending (b)	<u>\$ 17,116,103</u>	<u>\$ 16,917,941</u>	<u>\$ 17,598,839</u>	<u>\$ 19,544,844</u>	<u>\$ 18,422,719</u>	<u>\$ 20,784,414</u>	<u>\$ 21,954,309</u>
Net pension liability, ending = (a)-(b)	<u>\$ 5,276,050</u>	<u>\$ 3,867,980</u>	<u>\$ 3,584,909</u>	<u>\$ 1,918,959</u>	<u>\$ 3,534,239</u>	<u>\$ 1,770,117</u>	<u>\$ 1,295,463</u>
Fiduciary net position as a % of total pension liability	<u>76.44%</u>	<u>81.39%</u>	<u>83.08%</u>	<u>91.06%</u>	<u>83.90%</u>	<u>92.15%</u>	<u>94.43%</u>
Covered employee payroll	<u>\$ 4,090,382</u>	<u>\$ 3,735,319</u>	<u>\$ 3,650,828</u>	<u>\$ 3,579,312</u>	<u>\$ 3,609,017</u>	<u>\$ 3,776,749</u>	<u>\$ 3,875,446</u>
Net pension liability as a % of covered payroll	<u>128.99%</u>	<u>103.55%</u>	<u>98.19%</u>	<u>53.61%</u>	<u>97.93%</u>	<u>46.87%</u>	<u>33.43%</u>

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

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

THE CITY OF VERNON, TEXAS

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS
TEXAS MUNICIPAL RETIREMENT SYSTEM

	2015	2016	2017	2018	2019	2020	2021
Actuarial determined contribution	\$ 712,711	\$ 494,331	\$ 440,815	\$ 460,283	\$ 450,714	\$ 467,393	\$ 516,484
Contributions in relation to the actuarially determined contribution	(712,711)	(494,331)	(440,815)	(460,283)	(450,714)	(467,393)	(516,484)
Contribution deficiency	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered employee payroll	\$ 3,735,319	\$ 3,650,828	\$ 3,579,312	\$ 3,634,204	\$ 3,725,021	\$ 3,826,262	\$ 4,064,338
Contributions as a percentage of covered employee payroll	19.08%	13.54%	12.32%	12.67%	12.10%	12.22%	12.71%

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	25 years
Asset Valuation Method	10 Year smoothed market, 12% soft corridor
Inflation	2.50%
Salary Increases	3.50% to 11.50% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2019 valuation pursuant to an experience study of the period 2014-2018.
Mortality	Post-retirement: 2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP. Pre-retirement: PUB(10) mortality tables, with the Public Safety table used for males and the General Employee table used for females. The rates are projected on a fully generational basis with scale UMP.

Other Information:

Notes There were no benefit changes during the year.

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

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

THE CITY OF VERNON, TEXAS

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

	2017	2018	2019	2020
Total OPEB Liability				
Service cost	\$ 9,306	\$ 10,827	\$ 10,953	\$ 14,727
Interest on total OPEB liability	12,817	12,682	13,387	11,801
Changes of benefit terms	-	-	-	-
Difference between expected and actual experience	-	(18,224)	(15,471)	(35,603)
Changes of assumptions or other inputs	26,376	(22,472)	63,065	57,504
Benefit payments	(5,369)	(5,053)	(5,287)	(5,813)
Net change in total OPEB liability	43,130	(22,240)	66,647	42,616
Total OPEB liability, beginning	337,117	380,247	358,007	424,654
Total OPEB liability, ending	<u>\$ 380,247</u>	<u>\$ 358,007</u>	<u>\$ 424,654</u>	<u>\$ 467,270</u>
Covered payroll	<u>\$ 3,579,312</u>	<u>\$ 3,609,017</u>	<u>\$ 3,875,446</u>	<u>\$ 3,875,446</u>
Total OPEB liability as a % of covered payroll	<u>10.62%</u>	<u>9.92%</u>	<u>10.96%</u>	<u>12.06%</u>

This schedule is presented to illustrate the requirement to show information for 10 years. However, recalculations of prior years are not required, and if prior years are not reported in accordance with the standards of GASB 75, they should not be shown here. Therefore, we have shown only years for which the new GASB statements have been implemented.