

THE CITY OF VERNON, TEXAS

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2023

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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

Report on the Audit of the Financial Statements

Opinions

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, 2023, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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, 2023, 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.

We did not audit the financial statements of the Business Development Corporation of Vernon, the City's discretely presented component unit, which is 100 percent of the assets, net position, and revenues of the component unit activities. Those statements were audited by other auditors whose report has been furnished to us, and our opinions, insofar as it relates to the amounts included for the component unit, are based solely on the report of the other auditors.

Basis of Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued under separate cover our report dated August 20, 2024, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Edgin, Parkman, Fleming & Fleming, PC

EDGIN, PARKMAN, FLEMING & FLEMING, PC

Wichita Falls, Texas
August 20, 2024

City of Vernon

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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, 2023. 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 \$44,504,110 (net position). Of this amount, \$8,132,185 (unrestricted net position) may be used to meet the City's obligations.
- During the year, the City's total net position increased by \$4,565,208.
- The governmental funds reported a fund balance this year of \$10,600,780, which is a decrease of \$263,294 in comparison with the prior year amount of \$10,864,074 or 2.48%. Of this total fund balance, \$3,825,698 is available for spending at the government's discretion (unassigned fund balance).
- At the end of the current fiscal year, unassigned fund balance for the General Fund and all other Governmental Funds was \$3,825,698. \$6,775,082 of the total Governmental Funds fund balances are either restricted, committed or assigned.

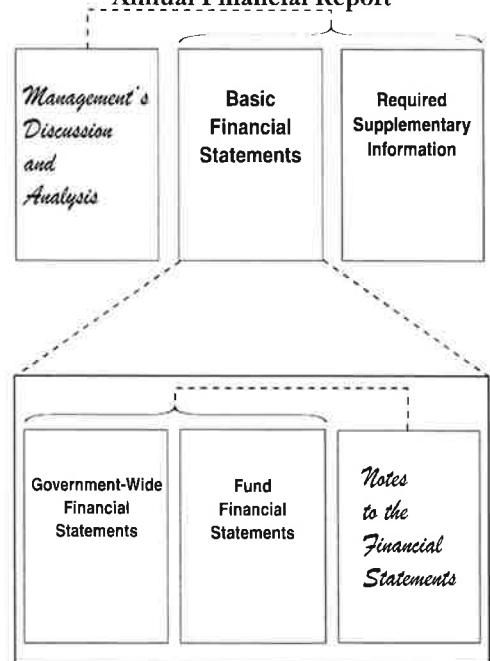
OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

Government-wide Statements

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

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

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

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

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

Fund Financial Statements

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

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

The City has the following kinds of funds:

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

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net position. The City's combined net position was \$44,504,110 at September 30, 2023. (See Table A-1)

Table A-1
City's Net Position

| | Governmental Activities | | Business-type Activities | | Total | |
|--------------------------------------|-------------------------|---------------|--------------------------|---------------|---------------|---------------|
| | 2023 | 2022 | 2023 | 2022 | 2023 | 2022 |
| Current and other assets | | | | | | |
| Capital assets, net | \$ 13,795,183 | \$ 15,757,590 | \$ 21,009,858 | \$ 20,357,525 | \$ 34,805,041 | \$ 36,115,115 |
| Total assets | 7,691,642 | 6,540,054 | 22,015,788 | 18,963,604 | 29,707,430 | 25,503,658 |
| | 21,486,825 | 22,297,644 | 43,025,646 | 39,321,129 | 64,512,471 | 61,618,773 |
| Deferred outflows of resources | | | | | | |
| Related to pension plan | 1,789,514 | 444,128 | 360,308 | 110,132 | 2,149,822 | 554,260 |
| Related to OPEB plan | 41,410 | 61,313 | 8,337 | 15,204 | 49,747 | - |
| Deferred loss on refunding debt | - | - | 176,331 | 190,430 | 176,331 | 190,430 |
| | 1,830,924 | 505,441 | 544,976 | 315,766 | 2,375,900 | 744,690 |
| Total deferred outflows of resources | 1,697,213 | 3,331,282 | 1,381,308 | 1,174,235 | 3,078,521 | 4,505,517 |
| Current and other liabilities | | | | | | |
| Long-term liabilities | 4,497,988 | 1,795,146 | 14,502,375 | 14,550,640 | 19,000,363 | 16,345,786 |
| Total liabilities | 6,195,201 | 5,126,428 | 15,883,683 | 15,724,875 | 22,078,884 | 20,851,303 |
| Deferred inflows of resources | | | | | | |
| Right-to-use leases receivable | 15,069 | 24,677 | 151,965 | 79,619 | 167,034 | 104,296 |
| Related to pension plan | - | 1,212,073 | - | 300,560 | - | 1,512,633 |
| OPEB plan related | 115,156 | 26,319 | 23,187 | 6,527 | 138,343 | 32,846 |
| | 130,225 | 1,263,069 | 175,152 | 386,706 | 305,377 | 1,649,775 |
| Net position | | | | | | |
| Net investment in capital assets | 6,549,387 | 5,298,118 | 19,376,389 | 15,859,810 | 25,925,776 | 21,157,928 |
| Restricted | 6,275,327 | 5,882,100 | 4,170,822 | 3,643,512 | 10,446,149 | 9,525,612 |
| Unrestricted | 4,167,609 | 5,233,370 | 3,964,576 | 4,021,992 | 8,132,185 | 9,255,362 |
| | \$ 16,992,323 | \$ 16,413,588 | \$ 27,511,787 | \$ 23,525,314 | \$ 44,504,110 | \$ 39,938,902 |
| Total net position | | | | | | |

The \$8,132,185 of unrestricted net position at September 30, 2023, 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 \$20,153,352. A significant portion, 51%, of the City's revenue comes from charges for services. (See Figure A-3.) 3% comes from other taxes, 8% comes from sales taxes, 12% from property taxes, 12% from grants, 6% from investment earnings and 4% from franchise fees. Other minor categories combined make up 4% of the City's total revenues.

The total cost of all programs and services was \$15,588,144, 40% of these costs are for water, sewer and sanitation related expenses. The City's expenses cover a range of services, with 33% related to public safety, 8% for public works, 5% for cemetery and parks, 3% for subsidies, donations and other, 7% for general government, and 4% for other categories. (See Figure A-4.)

Figure A-3
Source of Revenue for Fiscal Year 2023

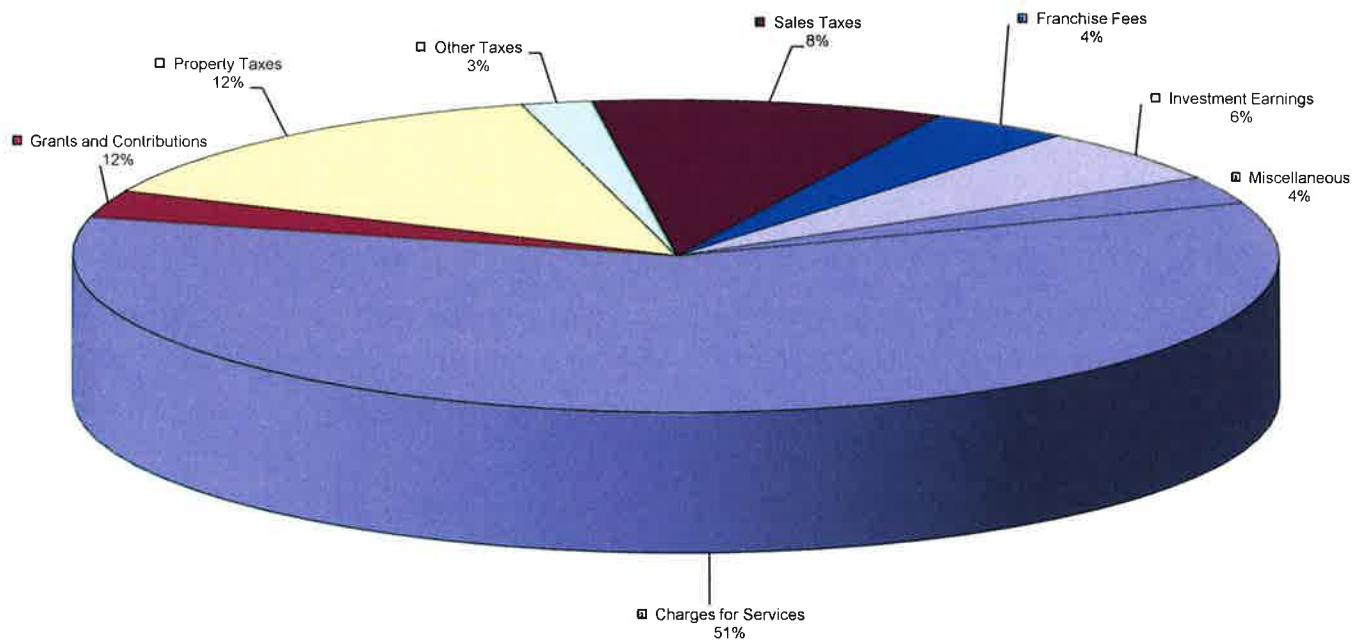
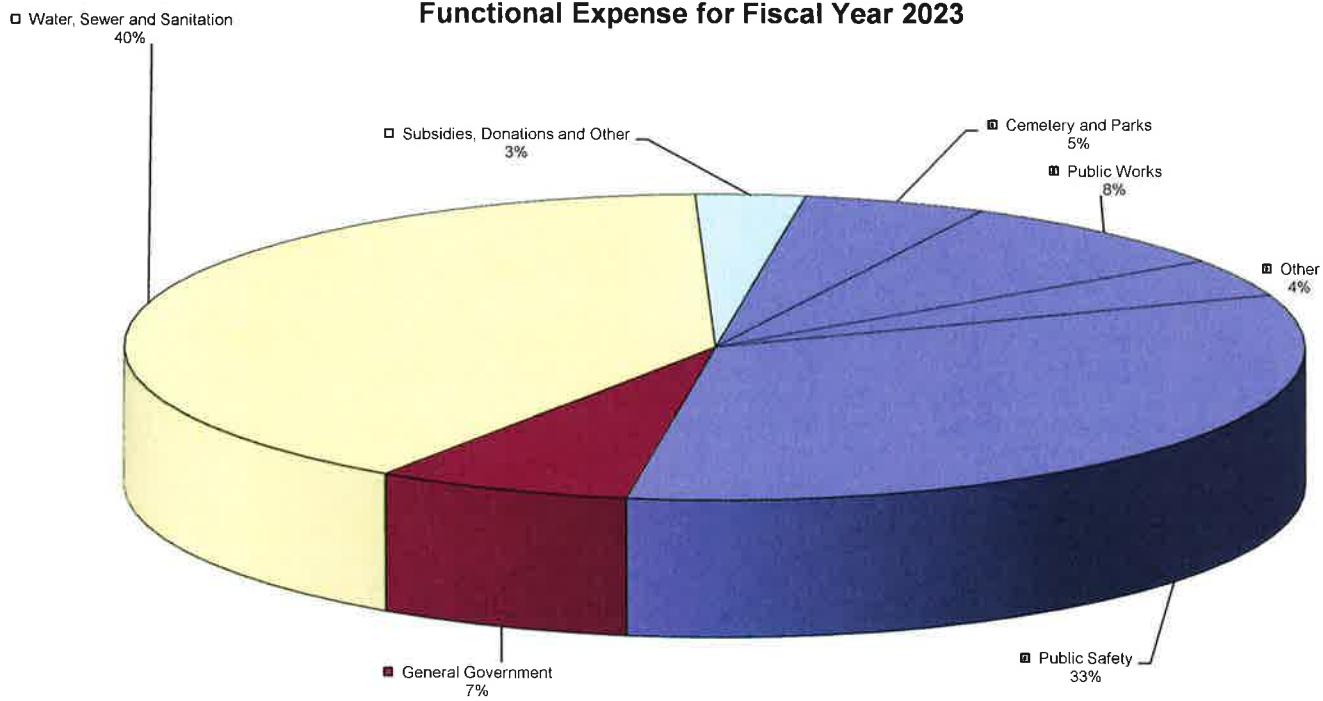


Figure A-4
Functional Expense for Fiscal Year 2023



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 | |
|------------------------------------|-------------------------|----------------------|--------------------------|----------------------|----------------------|----------------------|
| | 2023 | 2022 | 2023 | 2022 | 2023 | 2022 |
| Revenues | | | | | | |
| Program revenues | | | | | | |
| Charges for services | \$ 1,475,365 | \$ 1,407,785 | \$ 8,863,500 | \$ 8,599,700 | \$ 10,338,865 | \$ 10,007,485 |
| Operating and capital grants | 226,611 | 178,771 | - | - | 226,611 | 178,771 |
| Capital grants and contributions | 2,122,948 | 273,920 | - | - | 2,122,948 | 273,920 |
| General revenues | | | | | | |
| Property taxes | 2,479,106 | 2,380,586 | - | - | 2,479,106 | 2,380,586 |
| Sales taxes | 1,584,396 | 1,552,444 | - | - | 1,584,396 | 1,552,444 |
| Franchise fees | 775,890 | 683,881 | - | - | 775,890 | 683,881 |
| Other taxes | 512,485 | 466,971 | - | - | 512,485 | 466,971 |
| Investment earnings | 512,569 | 105,969 | 767,767 | 98,070 | 1,280,336 | 204,039 |
| Miscellaneous | 758,301 | 410,232 | 74,221 | 116,138 | 832,522 | 526,370 |
| Gain on disposal of capital assets | - | - | 193 | - | 193 | - |
| Total revenues | 10,447,671 | 7,460,559 | 9,705,681 | 8,813,908 | 20,153,352 | 16,274,467 |
| Expenses | | | | | | |
| General government | 1,128,903 | 973,532 | - | - | 1,128,903 | 973,532 |
| Public safety | 5,217,828 | 4,059,759 | - | - | 5,217,828 | 4,059,759 |
| Public works | 1,209,626 | 1,056,804 | - | - | 1,209,626 | 1,056,804 |
| Cemetery and parks | 766,908 | 626,796 | - | - | 766,908 | 626,796 |
| Subsidies, donations, and other | 528,953 | 551,327 | - | - | 528,953 | 551,327 |
| Christmas decorations | 6,581 | 11,835 | - | - | 6,581 | 11,835 |
| Civic and cultural | 243,346 | 229,780 | - | - | 243,346 | 229,780 |
| Economic development | 178,620 | 113,326 | - | - | 178,620 | 113,326 |
| Interest | 36,529 | 37,117 | - | - | 36,529 | 37,117 |
| Water, sewer and sanitation | - | - | 6,270,850 | 6,010,724 | 6,270,850 | 6,010,724 |
| Total expenses | 9,317,294 | 7,660,276 | 6,270,850 | 6,010,724 | 15,588,144 | 13,671,000 |
| Transfers | (551,642) | 2,550,465 | 551,642 | (2,550,465) | - | - |
| Change in net position | 578,735 | 2,350,748 | 3,986,473 | 252,719 | 4,565,208 | 2,603,467 |
| Net position - beginning | 16,413,588 | 14,063,958 | 23,525,314 | 23,273,154 | 39,938,902 | 37,337,112 |
| Prior Period Adjustment | - | (1,118) | - | (559) | - | (1,677) |
| Net position - ending | \$ 16,992,323 | \$ 16,413,588 | \$ 27,511,787 | \$ 23,525,314 | \$ 44,504,110 | \$ 39,938,902 |

The most significant fluctuation between years relates to the following:

- Property taxes increased by \$98,520, which is due to increased valuations.
- Investment earnings increased \$1,076,2597 due to higher interest rates.
- Capital grants increased \$1,849,028 due to the City spending its ARPA grant funds.
- Miscellaneous revenues increased \$306,152 due to the City receiving reimbursement for building a road for a new school.
- Expenses increased overall by \$1,917,144 partially due to an increase in salaries, fuel cost, interest expense 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 \$9,317,294; however, the amount that our taxpayers paid for these activities through property taxes was \$2,479,106.
- Some of the cost was paid by those who directly benefited from the programs through charges for services of \$1,475,365.

Net Cost of Governmental Activities

| | Total Cost of Services | | Net Cost of Services | |
|--------------------------------|------------------------|---------------------|----------------------|---------------------|
| | 2023 | 2022 | 2023 | 2022 |
| General government | \$ 1,128,903 | \$ 973,532 | \$ 936,352 | \$ 784,780 |
| Public safety | 5,217,828 | 4,059,759 | 4,116,373 | 2,992,573 |
| Public works | 1,209,626 | 1,056,804 | (959,350) | 847,893 |
| Cemetery and parks | 766,908 | 626,796 | 587,767 | 310,004 |
| Subsidies, donations and other | 528,953 | 551,327 | 352,233 | 528,563 |
| Christmas decorations | 6,581 | 11,835 | 500 | 5,764 |
| Civic and cultural | 243,346 | 229,780 | 243,346 | 179,780 |
| Economic development | 178,620 | 113,326 | 178,620 | 113,326 |
| Interest | 36,529 | 37,117 | 36,529 | 37,117 |
| Total | <u>\$ 9,317,294</u> | <u>\$ 7,660,276</u> | <u>\$ 5,492,370</u> | <u>\$ 5,799,800</u> |

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Revenues from governmental funds totaled \$10,400,831, an increase of \$2,923,926 or 39%. The larger increase was an increase in capital grants and contributions of \$1,896,868 or 419% due to the City spending its ARPA grant funds, investment earnings increased \$369,141 or 425% due to increased interest rates, other revenues increased \$348,167 or 85% due to a cost share for building a road for a new school and an increase in property tax of \$141,932 or 6% due to valuations.

Expenditures from governmental funds totaled \$10,177,819, an increase of \$1,565,243 or 18%. The largest increase was in capital outlay, which was an increase of \$844,366 or 99% due to a street being built for the new elementary school. The second largest increase was in public safety, an increase of \$522,353 or 13% due to higher personnel cost. Transfers to the general fund decreased by \$1,020,910 or 32% due to \$1,070,000 of grant matching funds being transferred into a special revenue fund from the enterprise fund in 2022.

General Fund Budgetary Highlights

During the year, the City did amend its budget. The City's total actual expenditures were \$437,505 below final budgeted amounts but ended the year with two over-expended areas, capital outlay, due to the City building a street for the new school and economic development was over expended due to the transfer of the Gibson lot being unbudgeted. Total actual revenues were \$122,593 above the final budgeted amounts.

The significant positive revenue variances related to franchise, investment earnings and ambulance service fees. Ambulance service fees were \$77,461 or 19% more than the budgeted amount due to increased activity. Franchise fees were \$40,337 or 6% more than budgeted amounts due to fees remaining higher than anticipated. Investment earnings was \$61,725 or 42% more than the budgeted amount due to increased interest rates.

The significant expenditure variances were related to capital outlay, public safety, and public works. Capital outlay was \$1,013,914 over the final budgeted amount or 181% due to \$907,069 in street construction cost not being budgeted as capital outlay. Public safety was \$226,370 under the final budget amount or 5% due to the following line items being

under budget EMS personnel cost \$30,779, fire personnel cost \$52,968 and police personnel cost \$58,824. Public works was \$1,190,490 under the final budget amount or 53% due to the \$907,069 in street construction for the new school being budgeted in street maintenance not capital outlay.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At September 30, 2023, the City had invested in a broad range of capital assets totaling \$29,707,430, 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 | |
|----------------------------------|-------------------------|--------------------|--------------------------|---------------------|---------------------|---------------------|
| | 2023 | 2022 | 2023 | 2022 | 2023 | 2022 |
| Land | \$ 989,759 | \$ 981,029 | \$ 721,690 | \$ 721,690 | \$ 1,711,449 | \$ 1,702,719 |
| Construction in progress | 907,069 | - | 4,096,165 | 629,535 | 5,003,234 | 629,535 |
| Buildings and improvements | 1,533,415 | 1,569,838 | 16,099,775 | 16,507,276 | 17,633,190 | 18,077,114 |
| Infrastructure | 2,192,073 | 2,249,838 | - | - | 2,192,073 | 2,249,838 |
| Equipment, furniture, fixtures | 1,127,553 | 970,017 | 968,188 | 1,042,108 | 2,095,741 | 2,012,125 |
| Vehicles | 926,740 | 748,524 | 122,454 | 52,592 | 1,049,194 | 801,116 |
| Right-to-use leased assets | 15,033 | 20,808 | 7,516 | 10,403 | 22,549 | 31,211 |
| Total capital assets, net | \$7,691,642 | \$6,540,054 | \$22,015,788 | \$18,963,604 | \$29,707,430 | \$25,503,658 |

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

For the City's fiscal year 2024, the City plans capital additions including:

General Fund

| | |
|-----------------------------|-------------------|
| Street Seal Coat and Repair | \$ 429,000 |
| Road Boss Grader Attachment | 4,750 |
| Police Cars | 265,000 |
| Fire Pickups | 115,250 |
| Ambulance Chassis | 63,100 |
| Splash Pad Shades | 14,000 |
| Siren / Siren Decoder | 10,500 |
| Land Purchase 1601 Pease | 16,400 |
| Total | \$ 918,000 |

Enterprise Fund

| | |
|--------------------------------------|----------------------|
| Bulk Water Purchase | \$ 71,000 |
| Roof Nitrate Plant | 35,000 |
| PLC System Nitrate Plant | 57,000 |
| Scada Replacements | 37,500 |
| Booster Stations | 5,000 |
| WWTP Scada Upgrade | 28,400 |
| TS Buildings | 485,000 |
| TS Vehicle | 34,900 |
| WWTP Rejuvenations - Ongoing | 1,334,461 |
| 24" Water Line Replacement - Ongoing | 12,000,000 |
| Total | \$ 14,088,261 |

Long-term Obligations

At September 30, 2023, the City had \$15,994,626 in bonds, certificates of obligations, 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 | |
|--------------------------------|-------------------------|---------------------|--------------------------|----------------------|----------------------|----------------------|
| | 2023 | 2022 | 2023 | 2022 | 2023 | 2022 |
| Certificates of obligation | \$ 838,339 | \$ 907,132 | \$ - | \$ - | \$ 838,339 | \$ 907,132 |
| Notes payable | 286,708 | 312,256 | - | 19,975 | 286,708 | 332,231 |
| Right-to-use lease liabilities | 17,208 | 22,548 | 8,604 | 11,275 | 25,812 | 33,823 |
| Compensated absences | 462,319 | 414,349 | 77,345 | 90,111 | 539,664 | 504,460 |
| Revenue bonds | - | - | 14,304,103 | 14,749,540 | 14,304,103 | 14,749,540 |
| Total | \$ 1,604,574 | \$ 1,656,285 | \$ 14,390,052 | \$ 14,870,901 | \$ 15,994,626 | \$ 16,527,186 |

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Increases/Decreases in Revenue

In the General Fund, total 2024 original budgeted revenues decreased by \$73,542 from 2023 actual revenues. Property tax revenue budgeted for 2024 is \$47,572 or 2% more than actual for 2023. The tax rate for 2024 is \$0.37031 per \$100 of taxable property value for Maintenance and Operation.

In the Debt Service Fund, the 2024 tax rate is \$0.14969 per \$100 of taxable property value. The total amount of municipal debt secured by property taxes is \$756,936.

In the Enterprise Fund original budget, 2024 revenues were decreased by \$348,641 or 4% from 2023 actual revenues. Water revenues decreased \$256,239 or 6%. Interest income decreased \$617,767 or 80%.

Decreases/Increases in Expenditures

General Fund expenditures were decreased by \$470,241 or 5% from the actual 2023 expenditures.

Debt Service Fund expenditures including transfers were budgeted to decrease \$259,644 or 25% from the 2023 actual expenditures.

In the Enterprise Fund, expenses were increased by \$294,305 or 3% from 2023 actual expenses.

The original adopted budget shows a decrease of \$323,071 in General Fund Balance and an increase of \$106,869 in the Utility (Enterprise) Fund net position for a total, if realized, of a \$216,202 decrease in the City's net position for fiscal-year ending 2024.

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, 2023

| | Primary Government | | | Component Unit |
|--|----------------------------|-----------------------------|----------------------|---------------------|
| | Governmental Activities | Business-type Activities | Total | |
| Assets | | | | |
| Cash and cash equivalents | \$ 12,324,896 | \$ 8,857,954 | \$ 21,182,850 | \$ 2,619,147 |
| Receivables: | | | | |
| Due from primary government | - | - | - | 139,530 |
| Customers (net) | - | 776,920 | 776,920 | - |
| Ambulance (net) | 206,422 | - | 206,422 | - |
| Property taxes (net) | 141,597 | - | 141,597 | - |
| Sales taxes | 415,090 | - | 415,090 | - |
| Hotel occupancy taxes | 46,973 | - | 46,973 | - |
| Franchise fees | 233,408 | - | 233,408 | - |
| Right-to-use leases | 15,069 | 151,965 | 167,034 | - |
| Other | 109,014 | - | 109,014 | 5,500 |
| Internal balances | 113,807 | (113,807) | - | - |
| Other assets | - | 450 | 450 | - |
| Restricted assets: | | | | |
| Cash and cash equivalents | 188,907 | 11,336,376 | 11,525,283 | - |
| Capital assets not being depreciated | 1,896,828 | 4,817,855 | 6,714,683 | 99,092 |
| Capital assets being depreciated (net) | 5,794,814 | 17,197,933 | 22,992,747 | 305,024 |
| Total assets | <u>21,486,825</u> | <u>43,025,646</u> | <u>64,512,471</u> | <u>3,168,293</u> |
| Deferred Outflows of Resources | | | | |
| Pension plan related | 1,789,514 | 360,308 | 2,149,822 | - |
| OPEB plan related | 41,410 | 8,337 | 49,747 | - |
| Deferred loss on refunding debt | - | 176,331 | 176,331 | - |
| Total deferred outflows of resources | <u>1,830,924</u> | <u>544,976</u> | <u>2,375,900</u> | <u>-</u> |
| Liabilities | | | | |
| Accounts payable | 734,995 | 567,446 | 1,302,441 | - |
| Taxes payable | 337 | 3,705 | 4,042 | - |
| Due to component unit | 139,540 | - | 139,540 | - |
| Due to others | 126,389 | - | 126,389 | - |
| Accrued interest payable | 12,961 | 13,056 | 26,017 | - |
| Unearned revenues | 325,660 | - | 325,660 | - |
| Customer deposits | - | 254,900 | 254,900 | - |
| Long-term liabilities: | | | | |
| Portion due or payable within one year | 357,331 | 542,201 | 899,532 | 74,817 |
| Portion due or payable after one year | 1,247,243 | 13,847,851 | 15,095,094 | 39,853 |
| Net pension liability | 2,964,875 | 596,966 | 3,561,841 | - |
| Total OPEB liability | <u>285,870</u> | <u>57,558</u> | <u>343,428</u> | <u>-</u> |
| Total liabilities | <u>6,195,201</u> | <u>15,883,683</u> | <u>22,078,884</u> | <u>114,670</u> |
| Deferred Inflows of Resources | | | | |
| Right-to-use leases receivable | 15,069 | 151,965 | 167,034 | - |
| OPEB plan related | 115,156 | 23,187 | 138,343 | - |
| Total deferred inflows of resources | <u>130,225</u> | <u>175,152</u> | <u>305,377</u> | <u>-</u> |
| Net Position | | | | |
| Net investment in capital assets | 6,549,387 | 19,376,389 | 25,925,776 | 404,116 |
| Restricted | 6,275,327 | 4,170,822 | 10,446,149 | - |
| Unrestricted | 4,167,609 | 3,964,576 | 8,132,185 | 2,649,507 |
| Total net position | <u>\$ 16,992,323</u> | <u>\$ 27,511,787</u> | <u>\$ 44,504,110</u> | <u>\$ 3,053,623</u> |

See accompanying notes to the basic financial statements.

THE CITY OF VERNON, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2023

| Functions/Programs | Expenses | Program Revenues | | |
|--|----------------------|-----------------------------|---|---|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| | | | | |
| Primary government: | | | | |
| Governmental activities: | | | | |
| General government | \$ 1,128,903 | \$ 192,551 | \$ - | \$ - |
| Public safety | 5,217,828 | 1,042,805 | 58,650 | - |
| Public works | 1,209,626 | 40,678 | 35,350 | 2,092,948 |
| Cemetery and parks | 766,908 | 179,141 | - | - |
| Subsidies, donations and other | 528,953 | 20,190 | 126,530 | 30,000 |
| Christmas decorations | 6,581 | - | 6,081 | - |
| Civic and cultural | 243,346 | - | - | - |
| Economic development | 178,620 | - | - | - |
| Interest expense | 36,529 | - | - | - |
| Total governmental activities | <u>9,317,294</u> | <u>1,475,365</u> | <u>226,611</u> | <u>2,122,948</u> |
| Business-type activities: | | | | |
| Water | 2,326,661 | 4,439,765 | - | - |
| Sewer | 1,409,393 | 2,464,069 | - | - |
| Sanitation | 2,356,075 | 1,801,835 | - | - |
| Other | 178,721 | 157,831 | - | - |
| Total business-type activities | <u>6,270,850</u> | <u>8,863,500</u> | <u>-</u> | <u>-</u> |
| Total primary government | <u>\$ 15,588,144</u> | <u>\$ 10,338,865</u> | <u>\$ 226,611</u> | <u>\$ 2,122,948</u> |
| Component unit: | | | | |
| Business Development Corporation of Vernon | <u>\$ 392,549</u> | <u>\$ 66,000</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 | | | | |
| Gain on disposal of capital assets | | | | |
| 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 | |
| \$ | \$ | \$ | \$ | \$ |
| (936,352) | - | (936,352) | | |
| (4,116,373) | - | (4,116,373) | | |
| 959,350 | - | 959,350 | | |
| (587,767) | - | (587,767) | | |
| (352,233) | - | (352,233) | | |
| (500) | - | (500) | | |
| (243,346) | - | (243,346) | | |
| (178,620) | - | (178,620) | | |
| (36,529) | - | (36,529) | | |
| <u>(5,492,370)</u> | <u>-</u> | <u>(5,492,370)</u> | | |
| | | | | |
| - | 2,113,104 | 2,113,104 | | |
| - | 1,054,676 | 1,054,676 | | |
| - | (554,240) | (554,240) | | |
| - | (20,890) | (20,890) | | |
| <u>-</u> | <u>2,592,650</u> | <u>2,592,650</u> | | |
| <u>(5,492,370)</u> | <u>2,592,650</u> | <u>(2,899,720)</u> | | |
| | | | | |
| | | | (326,549) | |
| | | | | |
| 1,937,351 | - | 1,937,351 | | |
| 541,755 | - | 541,755 | | |
| 775,890 | - | 775,890 | | |
| 1,584,396 | - | 1,584,396 | 792,160 | |
| 490,412 | - | 490,412 | | |
| 22,073 | - | 22,073 | | |
| 512,569 | 767,767 | 1,280,336 | 12,385 | |
| 758,301 | 74,221 | 832,522 | | |
| - | 193 | 193 | | |
| <u>(551,642)</u> | <u>551,642</u> | <u>-</u> | | |
| <u>6,071,105</u> | <u>1,393,823</u> | <u>7,464,928</u> | <u>804,545</u> | |
| | | | | |
| 578,735 | 3,986,473 | 4,565,208 | 477,996 | |
| <u>16,413,588</u> | <u>23,525,314</u> | <u>39,938,902</u> | <u>2,575,627</u> | |
| <u>\$ 16,992,323</u> | <u>\$ 27,511,787</u> | <u>\$ 44,504,110</u> | <u>\$ 3,053,623</u> | |

EXHIBIT A-3

THE CITY OF VERNON, TEXAS
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2023

| | General Fund | ARPA Grant Fund | Debt Service Fund | Electric Trust Principal Fund | Nonmajor Governmental Funds | Total Governmental Funds |
|--|---------------------|-------------------|-------------------|-------------------------------|-----------------------------|--------------------------|
| Assets | | | | | | |
| Cash and cash equivalents | \$ 4,113,535 | \$ 736,877 | \$ 426,164 | \$ 2,946,142 | \$ 2,633,886 | \$ 10,856,604 |
| Receivables: | | | | | | |
| Ambulance (net) | 206,422 | - | - | - | - | 206,422 |
| Property taxes (net) | 107,396 | - | 34,201 | - | - | 141,597 |
| Sales taxes | 415,090 | - | - | - | - | 415,090 |
| Franchise fees | 33,388 | - | - | - | - | 33,388 |
| Hotel occupancy taxes | - | - | - | - | 46,973 | 46,973 |
| Right-to-use lease | 15,069 | - | - | - | - | 15,069 |
| Other | 26,014 | - | - | - | 83,000 | 109,014 |
| Due from other funds | 45,747 | - | - | - | 4,163 | 49,910 |
| Restricted assets: | | | | | | |
| Cash and cash equivalents | 188,907 | - | - | - | - | 188,907 |
| Total assets | <u>\$ 5,151,568</u> | <u>\$ 736,877</u> | <u>\$ 460,365</u> | <u>\$ 2,946,142</u> | <u>\$ 2,768,022</u> | <u>\$ 12,062,974</u> |
| Liabilities, deferred inflows of resources, and fund balances | | | | | | |
| Liabilities: | | | | | | |
| Accounts payable | \$ 145,542 | \$ 329,999 | \$ - | \$ - | \$ 87,373 | \$ 562,914 |
| Taxes payable | 337 | - | - | - | - | 337 |
| Due to other funds | 5,249 | - | - | - | 43,814 | 49,063 |
| Due to component unit | 139,540 | - | - | - | - | 139,540 |
| Due to others | - | - | - | - | 126,389 | 126,389 |
| Unearned revenues | - | 325,660 | - | - | - | 325,660 |
| Total liabilities | <u>290,668</u> | <u>655,659</u> | <u>-</u> | <u>-</u> | <u>257,576</u> | <u>1,203,903</u> |
| Deferred inflows of resources: | | | | | | |
| Unavailable revenues | <u>227,702</u> | <u>-</u> | <u>30,589</u> | <u>-</u> | <u>-</u> | <u>258,291</u> |
| Fund balances: | | | | | | |
| Restricted | 307,745 | 81,218 | 429,776 | 2,946,142 | 2,510,446 | 6,275,327 |
| Committed | 176,684 | - | - | - | - | 176,684 |
| Assigned | 323,071 | - | - | - | - | 323,071 |
| Unassigned | 3,825,698 | - | - | - | - | 3,825,698 |
| Total fund balances | <u>4,633,198</u> | <u>81,218</u> | <u>429,776</u> | <u>2,946,142</u> | <u>2,510,446</u> | <u>10,600,780</u> |
| Total liabilities, deferred inflows of resources, and fund balances | <u>\$ 5,151,568</u> | <u>\$ 736,877</u> | <u>\$ 460,365</u> | <u>\$ 2,946,142</u> | <u>\$ 2,768,022</u> | <u>\$ 12,062,974</u> |

See accompanying notes to the basic financial statements.

THE CITY OF VERNON, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
FOR THE YEAR ENDED SEPTEMBER 30, 2023

Total fund balances - governmental funds (Exhibit A-3) \$ 10,600,780

Amounts reported for *governmental activities* in the Statement of Net Position (Exhibit A-1) are different because:

Capital assets used in governmental activities are not financial resources and therefore not reported in the funds. Capital assets at year-end consist of:

| | | |
|----------------------------------|------------------|-----------|
| Gross capital assets | \$ 13,499,360 | |
| Related accumulated depreciation | <u>5,807,718</u> | 7,691,642 |

Property taxes receivable are not available to pay for current period expenditures and therefore are deferred inflows of resources in the funds. 126,487

Ambulance fees receivable are not available to pay for current period expenditures and therefore are deferred inflows of resources in the funds. 116,735

Franchise fees revenue is only recognized at the fund level when measurable and available within 60 days of year-end. Franchise fees revenue is recognized as they are earned at the government-wide level. 200,020

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 | 754,908 | |
| Bond premiums | 83,431 | |
| Notes payable | 286,708 | |
| Lease liabilities | 17,208 | |
| Compensated absences | <u>462,319</u> | (1,604,574) |

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: (12,961)

The City's net pension liability and related deferred outflows and inflows related to its participation in the Texas Municipal Retirement System do not meet criteria to be reported in the governmental funds financial statements. These items consist of:

| | | |
|---|-------------|-------------|
| Deferred outflows of resources - pension plan related | 1,789,514 | |
| Net pension liability | (2,964,875) | |
| Deferred inflows of resources - pension plan related | <u>-</u> | (1,175,361) |

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 | 41,410 | |
| Total OPEB liability | (285,870) | |
| Deferred inflows of resources - OPEB plan related | <u>(115,156)</u> | (359,616) |

The assets and liabilities of the internal service funds are included in the governmental activities in the Statement of Net Position. 1,409,171

Total net position - governmental activities (Exhibit A-1) \$ 16,992,323

See accompanying notes to the basic financial statements.

THE CITY OF VERNON, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2023

| | General Fund | ARPA Grant Fund | Debt Service Fund | Electric Trust Principal Fund | Nonmajor Governmental Funds | Total Governmental Funds |
|--|---------------------|--------------------|-------------------|-------------------------------|-----------------------------|--------------------------|
| Revenues | | | | | | |
| Property taxes | \$ 1,916,147 | \$ - | \$ 598,739 | \$ - | \$ - | \$ 2,514,886 |
| Franchise fees | 726,029 | - | - | - | - | 726,029 |
| Sales taxes | 1,584,396 | - | - | - | - | 1,584,396 |
| Hotel occupancy taxes | - | - | - | - | 490,412 | 490,412 |
| Other taxes | 22,073 | - | - | - | - | 22,073 |
| Licenses and permits | 60,848 | - | - | - | - | 60,848 |
| Cemetery income | 64,570 | - | - | - | - | 64,570 |
| Contracts | 419,200 | - | - | - | - | 419,200 |
| Swimming pool | 85,896 | - | - | - | - | 85,896 |
| Ambulance service | 479,131 | - | - | - | - | 479,131 |
| Administrative charges to other funds | 291,232 | - | - | - | - | 291,232 |
| Fines and fees | 93,986 | - | - | - | 4,394 | 98,380 |
| Grants and donations | - | 2,070,149 | - | - | 279,410 | 2,349,559 |
| Investment earnings | 207,745 | 70,933 | 15,905 | 104,949 | 56,386 | 455,918 |
| Other revenues | 593,576 | - | 486 | - | 164,239 | 758,301 |
| Total revenues | <u>6,544,829</u> | <u>2,141,082</u> | <u>615,130</u> | <u>104,949</u> | <u>994,841</u> | <u>10,400,831</u> |
| Expenditures | | | | | | |
| General government | 893,520 | 18,400 | - | - | 114,911 | 1,026,831 |
| Public safety | 4,494,274 | - | - | - | 69,304 | 4,563,578 |
| Public works | 1,065,698 | - | - | - | - | 1,065,698 |
| Cemetery and parks | 667,903 | - | - | - | - | 667,903 |
| Subsidies, donations and other | 528,953 | - | - | - | - | 528,953 |
| Christmas decorations | - | - | - | - | 6,581 | 6,581 |
| Civic and cultural | - | - | - | - | 243,346 | 243,346 |
| Economic development | 38,148 | - | - | - | 140,472 | 178,620 |
| Capital outlay | 1,573,588 | - | - | - | 126,027 | 1,699,615 |
| Debt service: | | | | | | |
| Principal | 92,771 | - | 62,121 | - | - | 154,892 |
| Interest charges | 11,228 | - | 30,574 | - | - | 41,802 |
| Total expenditures | <u>9,366,083</u> | <u>18,400</u> | <u>92,695</u> | <u>-</u> | <u>700,641</u> | <u>10,177,819</u> |
| Excess of revenues over (under) expenditures | <u>(2,821,254)</u> | <u>2,122,682</u> | <u>522,435</u> | <u>104,949</u> | <u>294,200</u> | <u>223,012</u> |
| Other Financing Sources (Uses) | | | | | | |
| Proceeds from issuance of debt | 61,883 | - | - | - | - | 61,883 |
| Proceeds from sale of capital assets | 273 | - | - | - | - | 273 |
| Proceeds from sale of perpetual care spaces | - | - | - | - | 3,180 | 3,180 |
| Transfers in | 2,174,471 | - | - | - | 11,265 | 2,185,736 |
| Transfers out | - | (2,051,749) | (521,699) | (73,487) | (90,443) | (2,737,378) |
| Total other financing sources (uses) | <u>2,236,627</u> | <u>(2,051,749)</u> | <u>(521,699)</u> | <u>(73,487)</u> | <u>(75,998)</u> | <u>(486,306)</u> |
| Net change in fund balance | (584,627) | 70,933 | 736 | 31,462 | 218,202 | (263,294) |
| Fund balances - beginning | <u>5,217,825</u> | <u>10,285</u> | <u>429,040</u> | <u>2,914,680</u> | <u>2,292,244</u> | <u>10,864,074</u> |
| Fund balances - ending | <u>\$ 4,633,198</u> | <u>\$ 81,218</u> | <u>\$ 429,776</u> | <u>\$ 2,946,142</u> | <u>\$ 2,510,446</u> | <u>\$ 10,600,780</u> |

See accompanying notes to the basic financial statements.

THE CITY OF VERNON, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2023

Net change in fund balances - total governmental funds (Exhibit A-5) \$ (263,294)

Amounts reported for *governmental activities* 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 | \$ 1,699,615 | |
| Depreciation expense for the year | <u>524,386</u> | 1,175,229 |
| | | |

The net book value of the capital assets disposed of during the year was: (23,641)

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 | (35,780) | |
| Ambulance fees | (27,072) | |
| Franchise fees | <u>49,861</u> | (12,991) |
| | | |

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 notes payable issuance during the year was: (61,883)

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 | 62,121 | |
| Notes payable | 87,431 | |
| Lease liabilities | <u>5,340</u> | 154,892 |
| | | |

Accrued interest payable from the beginning of the year to the end of the year changed by: (1,399)

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: (47,970)

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. (331,952)

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. (3,032)

The internal service funds' activities related to the General Fund are included in the Statement of Activities of the governmental activities. (11,896)

Change in net position of governmental activities (Exhibit A-2) \$ 578,735

See accompanying notes to the basic financial statements.

THE CITY OF VERNON, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2023

| | Enterprise Fund | Internal Service Funds |
|--|----------------------|------------------------------|
| | Utility Fund | |
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 8,857,954 | \$ 1,468,292 |
| Receivables: | | |
| Customers (net) | 776,920 | - |
| Due from other funds | 4,552 | - |
| Other assets | 450 | - |
| Note receivable, current portion | - | 103,069 |
| Right-to-use lease receivable, current portion | 37,837 | - |
| Restricted assets: | | |
| Cash and cash equivalents | 11,336,376 | - |
| Total current assets | <u>21,014,089</u> | <u>1,571,361</u> |
| Long-term assets: | | |
| Note receivable, net of current portion | - | 113,890 |
| Right-to-use lease receivable, net of current portion | 114,128 | - |
| Capital assets not being depreciated | 4,817,855 | - |
| Capital assets being depreciated (net) | 17,197,933 | - |
| Total long-term assets | <u>22,129,916</u> | <u>113,890</u> |
| Total assets | <u>43,144,005</u> | <u>1,685,251</u> |
| Deferred Outflows of Resources: | | |
| Pension plan related | 360,308 | - |
| OPEB plan related | 8,337 | - |
| Deferred loss on refunding debt | 176,331 | - |
| Total deferred outflows of resources | <u>544,976</u> | <u>-</u> |
| Liabilities | | |
| Current liabilities: | | |
| Accounts payable | 567,446 | 172,081 |
| Taxes payable | 3,705 | - |
| Due to other funds | 5,399 | - |
| Accrued interest payable | 13,056 | - |
| Customer deposits | 254,900 | - |
| Current maturities of long-term obligations | 645,270 | - |
| Total current liabilities | <u>1,489,776</u> | <u>172,081</u> |
| Long-term liabilities: | | |
| Long-term obligations, less current maturities | 13,961,741 | - |
| Net pension liability | 596,966 | - |
| Total OPEB liability | 57,558 | - |
| Total long-term liabilities | <u>14,616,265</u> | <u>-</u> |
| Total liabilities | <u>16,106,041</u> | <u>172,081</u> |
| Deferred Inflows of Resources: | | |
| Right-to-use lease receivable | 151,965 | - |
| OPEB plan related | 23,187 | - |
| Total deferred inflows of resources | <u>175,152</u> | <u>-</u> |
| Net Position | | |
| Net investment in capital assets | 19,376,389 | - |
| Restricted | 4,170,822 | - |
| Unrestricted | 3,860,577 | 1,513,170 |
| Total net position | <u>27,407,788</u> | <u>\$ 1,513,170</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 | 103,999 | - |
| Net position of business-type activities | <u>\$ 27,511,787</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, 2023

| | Enterprise Fund | | Internal Service Funds |
|---|--------------------|--|------------------------------|
| | Utility Fund | | |
| Operating revenues | | | |
| Water revenues | \$ 4,399,239 | | \$ - |
| Sewer revenues | 2,464,069 | | - |
| Sanitation revenues | 1,801,835 | | - |
| Charges and fees | - | | 951,088 |
| Late fees | 136,875 | | - |
| Other revenues | 74,221 | | - |
| Total operating revenues | 8,876,239 | | 951,088 |
| Operating expenses | | | |
| Billing and collection | 334,145 | | - |
| Water | 1,663,581 | | - |
| Sewer | 694,822 | | - |
| Sanitation | 2,210,807 | | - |
| Insurance claims and related | - | | 1,037,848 |
| Bad debts | 98,643 | | - |
| Depreciation | 895,742 | | - |
| Other operating expenses | 77,007 | | - |
| Total operating expenses | 5,974,747 | | 1,037,848 |
| Operating income (loss) | 2,901,492 | | (86,760) |
| Nonoperating revenues (expenses) | | | |
| Interest income | 767,767 | | 56,651 |
| Rent income | 40,526 | | - |
| Bad debt recoveries | 20,956 | | - |
| Gain on disposal of capital assets | 193 | | - |
| Interest expense | (277,890) | | - |
| Total nonoperating revenues (expenses) | 551,552 | | 56,651 |
| Income (loss) before transfers | 3,453,044 | | (30,109) |
| Transfers in | 3,254,871 | | - |
| Transfers out | (2,703,229) | | - |
| Net transfers | 551,642 | | - |
| Change in net position | 4,004,686 | | (30,109) |
| Net position - beginning | 23,403,102 | | 1,543,279 |
| Net position - ending | 27,407,788 | | \$ 1,513,170 |
| Reconciliation to government-wide statement of activities: | | | |
| Adjustment to reflect the consolidation of the Internal Service | | | |
| Funds' activities related to the Enterprise Fund | (18,213) | | |
| Change in net position of the business-type activities | \$ 3,986,473 | | |

See accompanying notes to the basic financial statements.

EXHIBIT A-9

THE CITY OF VERNON, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2023

| | Enterprise Fund | Internal Service Funds |
|---|----------------------------|------------------------------|
| Cash flows from operating activities: | | |
| Received from customers | \$ 8,807,160 | \$ 951,088 |
| Payments to suppliers | (3,940,690) | - |
| Payments to employees | (1,110,628) | - |
| Payments to claimants/beneficiaries | - | (996,474) |
| Net cash provided (used) by operating activities | <u>3,755,842</u> | <u>(45,386)</u> |
| Cash flows from noncapital financing activities: | | |
| Bad debt recoveries | 20,956 | - |
| Transfers from other funds | 3,254,871 | - |
| Transfers to other funds | (2,703,229) | - |
| Net cash provided by noncapital financing activities | <u>572,598</u> | <u>-</u> |
| Cash flows from capital and related financing activities: | | |
| Insurance claim | 76,523 | - |
| Acquisition and construction of capital assets | (3,947,926) | - |
| Principal paid on long-term debt | (504,298) | - |
| Interest paid on long-term debt | (276,609) | - |
| Net cash used by capital and related financing activities | <u>(4,652,117)</u> | <u>-</u> |
| Cash flows from investing activities: | | |
| Principal payments on long-term receivables | - | 108,773 |
| Interest on investments | 767,767 | 64,157 |
| Rents received | 40,526 | - |
| Net cash provided by investing activities | <u>808,293</u> | <u>172,930</u> |
| Net Increase in Cash and Cash Equivalents | 484,616 | 127,544 |
| Cash and Cash Equivalents - Beginning | 19,709,714 | 1,340,748 |
| Cash and Cash Equivalents - Ending | <u>\$20,194,330</u> | <u>\$ 1,468,292</u> |
| Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities: | | |
| Operating income (loss) | \$ 2,901,492 | \$ (86,760) |
| Adjustments to reconcile operating income (loss) | | |
| to net cash provided (used) by operating activities: | | |
| Depreciation | 895,742 | - |
| Amortization | (58,459) | - |
| (Increase) decrease in current assets and deferred outflows of resources: | | |
| Customer utility receivables | (74,298) | - |
| Deferred outflows of resources - pension and OPEB related | (243,309) | - |
| Increase (decrease) in current liabilities and deferred inflows of resources: | | |
| Accounts payable | 92,154 | 41,374 |
| Taxes payable | (4,744) | - |
| Due to other funds | 471 | - |
| Customer deposits | 4,749 | - |
| Compensated absences | (12,766) | - |
| Net pension liability | 578,254 | - |
| Total OPEB liability | (39,543) | - |
| Deferred inflows of resources - pension and OPEB related | (283,900) | - |
| Total adjustments | <u>854,350</u> | <u>41,374</u> |
| Net cash provided (used) by operating activities | <u>\$ 3,755,842</u> | <u>\$ (45,386)</u> |
| Reconciliation of Cash and Cash Equivalents on the Statement of Net Position to the Statement of Cash Flows: | | |
| Cash and cash equivalents | \$ 8,857,954 | \$ 1,468,292 |
| Restricted assets - cash and cash equivalents | 11,336,376 | - |
| Total cash and cash equivalents - ending | <u>\$20,194,330</u> | <u>\$ 1,468,292</u> |

See accompanying notes to the basic financial statements.

THE CITY OF VERNON, TEXAS
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
SEPTEMBER 30, 2023

| | <u>Custodial Funds</u> |
|---------------------------|----------------------------|
| Assets | |
| Cash and cash equivalents | \$ 109,545 |
| Receivables: | |
| Sales taxes | 13,674 |
| Total assets | <u>123,219</u> |
| Liabilities | |
| Accounts payable | 75 |
| Total liabilities | <u>75</u> |
| Net Position | |
| Restricted net position | 123,144 |
| Total net position | <u>\$ 123,144</u> |

See accompanying notes to the basic financial statements.

THE CITY OF VERNON, TEXAS
STATEMENT OF CHANGES IN NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2023

| | <u>Custodial Funds</u> |
|--------------------------------|----------------------------|
| Additions | \$ 149,426 |
| Deductions | <u>128,565</u> |
| Change in net position | 20,861 |
| Net position, beginning | <u>102,283</u> |
| Net position, ending | <u><u>\$ 123,144</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, 2023

| | Budgeted Amounts | | | Variance With Final Budget - Positive (Negative) |
|---|---------------------|---------------------|---------------------|---|
| | Original | Final | Actual | |
| Revenues | | | | |
| Property taxes | \$ 1,927,230 | \$ 1,909,785 | \$ 1,916,147 | \$ 6,362 |
| Franchise fees | 600,000 | 685,692 | 726,029 | 40,337 |
| Sales taxes | 1,530,000 | 1,606,440 | 1,584,396 | (22,044) |
| Other taxes | 18,000 | 20,732 | 22,073 | 1,341 |
| Licenses and permits | 40,000 | 58,350 | 60,848 | 2,498 |
| Cemetery income | 60,600 | 64,570 | 64,570 | - |
| Contracts | 467,700 | 419,225 | 419,200 | (25) |
| Swimming pool | 72,500 | 86,490 | 85,896 | (594) |
| Ambulance service | 540,000 | 401,670 | 479,131 | 77,461 |
| Administrative charges to other funds | 300,035 | 300,035 | 291,232 | (8,803) |
| Fines and fees | 127,086 | 78,630 | 93,986 | 15,356 |
| Grants and donations | - | 27,404 | - | (27,404) |
| Investment earnings | 105,800 | 146,020 | 207,745 | 61,725 |
| Other revenues | 176,054 | 617,193 | 593,576 | (23,617) |
| Total revenues | 5,965,005 | 6,422,236 | 6,544,829 | 122,593 |
| Expenditures | | | | |
| General government | 1,014,907 | 933,719 | 893,520 | 40,199 |
| Public safety | 4,613,576 | 4,720,644 | 4,494,274 | 226,370 |
| Public works | 1,233,081 | 2,256,188 | 1,065,698 | 1,190,490 |
| Cemetery and parks | 599,810 | 688,790 | 667,903 | 20,887 |
| Subsidies, donations and other | 594,650 | 558,731 | 528,953 | 29,778 |
| Economic development | - | - | 38,148 | (38,148) |
| Capital outlay | 451,100 | 559,674 | 1,573,588 | (1,013,914) |
| Debt service: | | | | |
| Principal | 78,942 | 80,042 | 92,771 | (12,729) |
| Interest charges | 5,800 | 5,800 | 11,228 | (5,428) |
| Total expenditures | 8,591,866 | 9,803,588 | 9,366,083 | 437,505 |
| Excess of revenues over (under) expenditures | (2,626,861) | (3,381,352) | (2,821,254) | 560,098 |
| Other Financing Sources | | | | |
| Proceeds from issuance of debt | - | - | 61,883 | 61,883 |
| Proceeds from sale of capital assets | 10,000 | - | 273 | 273 |
| Transfers in | 2,109,792 | 2,176,454 | 2,174,471 | (1,983) |
| Total other financing sources | 2,119,792 | 2,176,454 | 2,236,627 | 60,173 |
| Net change in fund balance | (507,069) | (1,204,898) | (584,627) | 620,271 |
| Fund balances - beginning | 5,217,825 | 5,217,825 | 5,217,825 | - |
| Fund balances - ending | \$ 4,710,756 | \$ 4,012,927 | \$ 4,633,198 | \$ 620,271 |

See accompanying notes to the basic financial statements.

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2023

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, 2023

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, ARPA 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, 2023

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 ARPA Grant Fund is used to account for the federal American Rescue Plan Act 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:

Non-Major 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, 2023

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, 2023

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 \$.40263 per \$100 in assessed valuation. Additionally, the City levied a tax for debt service of \$.12727 per \$100 in assessed valuation; therefore, the total tax rate was \$.52990 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 consist 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, 2023

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 (\$126,487) and ambulance receivables (\$116,735) 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) and amounts related to right-to-use assets the City has leased to other entities and will receive future lease payments (see Note 4) that are reported in this category.

7. Compensated Absences

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

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

8. Long-Term Obligations

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

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

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2023

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, 2023

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

11. Risk Management

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

12. Use of Estimates

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

13. Pension Plan

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

14. Other Post-Employment Benefits

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

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2023

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, 2023, except for over-expended General Fund budgeted amounts in economic development by \$38,148, capital outlay by \$1,013,914, debt service principal by \$12,729, and debt service interest charges by \$5,428.

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

As of September 30, 2023, 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 banking institutions. At September 30, 2023, the carrying amount of the City's deposits (cash and interest-bearing savings accounts included in temporary investments) was \$32,817,678 and the bank balance was \$33,424,013, including fiduciary accounts. The City's cash deposits were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name during the year ended September 30, 2023.

All of the BDC's demand and time depository accounts are held in local banking institutions. At September 30, 2023, the carrying amount of the Corporation's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$2,619,147 and the bank balance was \$2,619,103. The Corporation's cash deposits at September 30, 2023, and during the year ended September 30, 2023, were entirely covered by FDIC insurance.

B. Investments

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

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

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

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2023

3. DEPOSITS AND INVESTMENTS (CONT'D.)

The City's investments at September 30, 2023 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>\$21,981,015</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, 2023 was determined based on Level 1 inputs. The City estimates the fair value of the money market and savings accounts using amounts provided by financial institutions.

C. Analysis of Specific Deposit and Investment Risks

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

1. Credit Risk

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

2. Custodial Credit Risk

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

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

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

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2023

3. DEPOSITS AND INVESTMENTS (CONT'D.)

3. Concentration of Credit Risk

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

4. Interest Rate Risk

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

5. Foreign Currency Risk

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

4. RECEIVABLES

Receivables and related allowances for uncollectibles consisted of the following items on September 30, 2023:

| | <u>Gross Receivable</u> | <u>Allowance</u> | <u>Net Receivable</u> |
|--------------------------------------|-----------------------------|------------------|---------------------------|
| General Fund: | | | |
| Ambulance | \$ 425,756 | \$ 219,334 | \$206,422 |
| Property taxes | 147,892 | 40,496 | 107,396 |
| Sales taxes | 415,090 | - | 415,090 |
| Franchise fees | 33,388 | - | 33,388 |
| Right-to-use leases | 15,069 | - | 15,069 |
| Other | 26,014 | - | 26,014 |
| Debt Service Fund: | | | |
| Property taxes | 41,026 | 6,825 | 34,201 |
| Non-Major Governmental Funds: | | | |
| Hotel occupancy taxes | 46,973 | - | 46,973 |
| Utility Fund: | | | |
| Customers | 815,120 | 38,200 | 776,920 |
| Right-to-use leases | 151,965 | - | 151,965 |

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

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2023

4. RECEIVABLES (CONT'D.)

General Fund and Governmental Activities:

In March 2020, the City leased office space to an entity. The lease is for 60 months and requires monthly payments of \$861. At September 30, 2023, the City has recognized a receivable for the remaining lease payments of \$15,069 which has also been reflected as deferred inflows of resources. The receivable is discounted using an imputed interest rate of 3.57%. The balance of the deferred inflows will be recognized monthly through March 2025, based upon the required monthly payments.

At September 30, 2023, the City has recognized a total receivable for the above remaining general fund and governmental activities lease payments of \$15,069. The City received lease revenue of \$9,608 and interest income of \$724 for a total of \$10,332 of lease related inflows of resources for the above leases during the year ended September 30, 2023.

Utility Fund and Business-type Activities:

In April 2023, the City leased land for farming. The lease is for 5 years and requires annual payments of \$24,158. At September 30, 2023, the City has recognized a receivable for the remaining lease payments of \$88,595 which has also been reflected as deferred inflows of resources. The receivable is discounted using an imputed interest rate of 3.57%. The balance of the deferred inflows will be recognized monthly through April 2028, based upon the required annual payments.

In May 2022, the City leased tower space to an entity. The lease is for 60 months and requires monthly payments of \$1,500. At September 30, 2023, the City has recognized a receivable for the remaining lease payments of \$61,781 which has also been reflected as deferred inflows of resources. The receivable is discounted using an imputed interest rate of 3.57%. The balance of the deferred inflows will be recognized monthly through May 2027, based upon the required monthly payments.

In January 2020, the City leased land for farming. The lease is for 5 years and requires annual payments of \$837. At September 30, 2023, the City has recognized a receivable for the remaining lease payments of \$1,588 which has also been reflected as deferred inflows of resources. The receivable is discounted using an imputed interest rate of 3.57%. The balance of the deferred inflows will be recognized monthly through January 2025, based upon the required annual payments.

At September 30, 2023, the City has recognized a total receivable for the above remaining utility fund and business-type activities lease payments of \$151,965. The City lease revenue of \$40,067 and interest income of \$2,845 total \$42,912 of lease related inflows of resources for the above leases during the year ended September 30, 2023.

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2023

5. CAPITAL ASSETS

Capital asset activity for governmental activities for the year ended September 30, 2023 was as follows:

Governmental activities:

| | <u>Beginning Balances</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balances</u> |
|---|-------------------------------|--------------------|------------------|----------------------------|
| Capital assets not being depreciated: | | | | |
| Land | \$ 981,029 | \$ 8,730 | \$ - | \$ 989,759 |
| Construction in progress | - | 907,069 | - | 907,069 |
| Total capital assets not being depreciated | 981,029 | 915,799 | - | 1,896,828 |
| Capital assets being depreciated: | | | | |
| Buildings and improvements | 2,743,897 | 29,350 | - | 2,773,247 |
| Infrastructure | 2,812,648 | - | - | 2,812,648 |
| Equipment, furniture, fixtures, etc. | 2,779,010 | 360,527 | 9,000 | 3,130,537 |
| Vehicles | 2,727,346 | 393,939 | 264,060 | 2,857,225 |
| Right-to-use leased equipment, furniture, fixtures, etc. | 28,875 | - | - | 28,875 |
| Total capital assets being depreciated | 11,091,776 | 783,816 | 273,060 | 11,602,532 |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | 1,174,059 | 65,773 | - | 1,239,832 |
| Infrastructure | 562,810 | 57,765 | - | 620,575 |
| Equipment, furniture, fixtures, etc. | 1,808,993 | 201,791 | 7,800 | 2,002,984 |
| Vehicles | 1,978,822 | 193,282 | 241,619 | 1,930,485 |
| Right-to-use leased equipment, furniture, fixtures, etc. | 8,067 | 5,775 | - | 13,842 |
| Total accumulated depreciation | 5,532,751 | 524,386 | 249,419 | 5,807,718 |
| Total capital assets being depreciated, net | 5,559,025 | 259,430 | 23,641 | 5,794,814 |
| Governmental activities capital assets, net | \$ 6,540,054 | \$1,175,229 | \$ 23,641 | \$ 7,691,642 |

Depreciation expense was charged to departments as follows:

| | |
|-------------------------|-----------|
| General Government | \$ 41,126 |
| Public Safety | 328,154 |
| Public Works | 81,923 |
| Cemetery and Parks | 73,183 |
| <u>\$524,386</u> | |

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2023

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 | <u>666,285</u> | <u>3,429,880</u> | <u>-</u> | <u>4,096,165</u> |
| Total capital assets not being depreciated | <u>1,387,975</u> | <u>3,429,880</u> | <u>-</u> | <u>4,817,855</u> |
| Capital assets being depreciated: | | | | |
| Buildings and improvements | 31,697,256 | 330,347 | - | 32,027,603 |
| Equipment, furniture, fixtures, etc. | 2,684,093 | 82,850 | - | 2,766,943 |
| Vehicles | 426,153 | 104,848 | - | 531,001 |
| Right-to-use leased equipment, furniture, fixtures, etc. | <u>14,437</u> | <u>-</u> | <u>-</u> | <u>14,437</u> |
| Total capital assets being depreciated | <u>34,821,939</u> | <u>518,045</u> | <u>-</u> | <u>35,339,984</u> |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | 15,226,730 | 701,098 | - | 15,927,828 |
| Equipment, furniture, fixtures, etc. | 1,641,985 | 156,770 | - | 1,798,755 |
| Vehicles | 373,561 | 34,986 | - | 408,547 |
| Right-to-use leased equipment furniture, fixtures, etc. | <u>4,034</u> | <u>2,887</u> | <u>-</u> | <u>6,921</u> |
| Total accumulated depreciation | <u>17,246,310</u> | <u>895,741</u> | <u>-</u> | <u>18,142,051</u> |
| Total capital assets being depreciated, net | <u>17,575,629</u> | <u>(377,696)</u> | <u>-</u> | <u>17,197,933</u> |
| Business-type activities capital assets, net | <u>\$18,963,604</u> | <u>\$3,052,184</u> | <u>\$ -</u> | <u>\$22,015,788</u> |

Business-type activities depreciation expense was charged \$403,471 to the water department, \$459,680 to the sewer department, and \$32,590 to the sanitation department for a total of \$895,741.

Business Development Corporation:

| | Beginning Balances | Increases | Decreases | Ending Balances |
|--|-------------------------|---------------------------|--------------------|-------------------------|
| Capital assets not being depreciated: | | | | |
| Land | <u>\$ 99,092</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 99,092</u> |
| Capital assets being depreciated: | | | | |
| Buildings and improvements | 587,017 | - | - | 587,017 |
| Equipment, furniture, fixtures, etc. | <u>21,650</u> | <u>-</u> | <u>-</u> | <u>21,650</u> |
| Total capital assets being depreciated | <u>608,667</u> | <u>-</u> | <u>-</u> | <u>608,667</u> |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | 269,338 | 16,263 | - | 285,601 |
| Equipment, furniture, fixtures, etc. | <u>17,141</u> | <u>901</u> | <u>-</u> | <u>18,042</u> |
| Total accumulated depreciation | <u>286,479</u> | <u>17,164</u> | <u>-</u> | <u>303,643</u> |
| Total capital assets being depreciated, net | <u>322,188</u> | <u>(17,164)</u> | <u>-</u> | <u>305,024</u> |
| BDC capital assets, net | <u>\$421,280</u> | <u>(\$ 17,164)</u> | <u>\$ -</u> | <u>\$404,116</u> |

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2023

6. *INTERFUND BALANCES AND ACTIVITY*

A. Due From and To Other Funds

Balances due from and due to other funds at September 30, 2023 consisted of the following:

| <u>Due from Fund</u> | <u>Due To Fund</u> | <u>Amount</u> | <u>Purpose</u> |
|------------------------------|------------------------------|-----------------|-----------------------|
| General Fund | Non-Major Governmental Funds | \$ 697 | Short-term borrowings |
| General Fund | Enterprise Fund | 4,552 | Short-term borrowings |
| Non-Major Governmental Funds | General Fund | 43,814 | Short-term borrowings |
| Enterprise Fund | Non-Major Governmental Funds | 3,466 | Short-term borrowings |
| Enterprise Fund | General Fund | 1,933 | Short-term borrowings |
| Total | | \$54,462 | |

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, 2023 consisted of the following:

| <u>Transfers To</u> | <u>Transfers From</u> | <u>Amount</u> | <u>Reason</u> |
|------------------------------|-------------------------------|--------------------|--------------------------|
| General Fund | Enterprise Fund | \$2,100,984 | Payment in lieu of taxes |
| General Fund | Electric Trust Principal Fund | 73,487 | Interest transfer |
| Enterprise Fund | Enterprise Fund | 602,245 | Move to reserve funds |
| Enterprise Fund | Non-Major Governmental Funds | 79,178 | Reimburse expenses |
| Enterprise Fund | ARPA Grant Fund | 2,051,749 | Reimburse expenses |
| Enterprise Fund | Debt Service Fund | 521,699 | Debt service payments |
| Non-Major Governmental Funds | Non-Major Governmental Funds | 11,265 | Interest transfer |
| Total | | \$5,440,607 | |

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.

\$216,959

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2023

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

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

| <u>Year Ended September 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|---------------------------------|------------------|-----------------|------------------|
| 2024 | \$103,069 | \$4,248 | \$107,317 |
| 2025 | 105,675 | 1,642 | 107,317 |
| 2026 | 8,215 | 17 | 8,232 |
| Totals | \$216,959 | \$5,907 | \$222,866 |

This interfund borrowing is reported in the fund level financial statements as a note receivable in the Internal Service Fund and as long-term debt in the Utility Fund. However, it is netted into the internal balance captions in the government-wide Statement of Net Position at September 30, 2023.

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, 2023 are as follows:

| | <u>Beginning Balance</u> | | | <u>Ending Balance</u> | <u>Amount Due Within One Year</u> |
|--------------------------------------|------------------------------|-------------------|------------------|---------------------------|---|
| Governmental Activities: | | | | | |
| Bonds payable | \$ 817,029 | \$ - | \$ 62,121 | \$ 754,908 | \$ 55,369 |
| Bond premiums | 90,103 | - | 6,672 | 83,431 | - |
| Notes payable | 312,256 | 61,883 | 87,431 | 286,708 | 88,386 |
| Right-to-use lease liabilities | 22,548 | - | 5,340 | 17,208 | 5,533 |
| Compensated absences * | 414,349 | 218,219 | 170,249 | 462,319 | 208,043 |
| Total governmental activities | \$ 1,656,285 | \$ 280,102 | \$331,813 | \$1,604,574 | \$357,331 |

Business-type Activities:

| | | | | | |
|---------------------------------------|---------------------|------------------|------------------|---------------------|------------------|
| Bonds payable | \$14,412,971 | \$ - | \$372,879 | \$14,040,092 | \$504,631 |
| Bond premiums | 336,569 | - | 72,558 | 264,011 | - |
| Notes payable | 19,975 | - | 19,975 | - | - |
| Right-to-use lease liabilities | 11,275 | - | 2,671 | 8,604 | 2,767 |
| Compensated absences * | 90,111 | 51,073 | 63,839 | 77,345 | 34,803 |
| Total business-type activities | \$14,870,901 | \$ 51,073 | \$531,922 | \$14,390,052 | \$542,201 |

Business Development Corporation

| | | | | | |
|---------------|------------|------|-----------|------------|----------|
| Notes payable | \$ 632,138 | \$ - | \$517,468 | \$ 114,670 | \$74,817 |
|---------------|------------|------|-----------|------------|----------|

* - Other long-term liabilities

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2023

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, 2023, 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 9/30/23</u> | <u>Governmental Activities</u> | <u>Business-Type Activities</u> |
|---|-------------------------|--------------------------------|----------------------------|-------------------------------|-------------------------------------|--------------------------------|---------------------------------|
| General Obligation Refunding Bonds, Series 2016 | \$3,795,000 | 2.00% to 4.00% | 3/15/2036 | \$70,000 to \$200,000 | \$ 2,795,000 | \$754,908 | \$ 2,040,092 |
| Plus bond premium | | | | | 347,442 | 83,431 | 264,011 |
| Combination Tax and Surplus Revenue Certificates of Obligation, Series 2021 | 12,000,000 | 4.50% | 9/30/2051 | \$355,000 to \$565,000 | <u>12,000,000</u> | <u>-</u> | <u>12,000,000</u> |
| Total all bonds | | | | | <u>\$15,142,442</u> | <u>\$838,339</u> | <u>\$14,304,103</u> |

C. Debt Service Requirements on Long-Term Bonds

Debt service requirements on long-term bonds at September 30, 2023 are as follows:

| <u>Year Ending September 30,</u> | <u>Governmental Activities</u> | | |
|----------------------------------|--------------------------------|------------------|------------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
| 2024 | \$ 55,369 | \$ 28,812 | \$ 84,181 |
| 2025 | 56,719 | 26,847 | 83,566 |
| 2026 | 60,771 | 24,497 | 85,268 |
| 2027 | 62,121 | 22,040 | 84,161 |
| 2028 | 66,173 | 19,474 | 85,647 |
| 2029-2033 | 287,649 | 59,556 | 347,205 |
| 2034-2036 | <u>166,106</u> | <u>10,236</u> | <u>176,342</u> |
| Totals | \$754,908 | \$191,462 | \$946,370 |

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2023

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> |
| 2024 | \$ 504,631 | \$ 310,528 | \$ 815,159 |
| 2025 | 508,281 | 303,904 | 812,185 |
| 2026 | 524,229 | 295,765 | 819,994 |
| 2027 | 527,879 | 286,818 | 814,697 |
| 2028 | 543,827 | 277,073 | 820,900 |
| 2029-2033 | 2,637,351 | 1,223,668 | 3,861,019 |
| 2034-2038 | 2,448,894 | 930,612 | 3,379,506 |
| 2039-2043 | 2,210,000 | 682,142 | 2,892,142 |
| 2044-2048 | 2,485,000 | 394,610 | 2,879,610 |
| 2049-2051 | 1,650,000 | 68,637 | 1,718,637 |
| Totals | \$14,040,092 | \$4,773,757 | \$18,813,849 |

D. Notes Payable

The City has notes payable at September 30, 2023 as follows:

Governmental Activities:

Note payable to the Herring Bank to finance the purchase of a Quint Fire Truck. The note is due in annual payments of \$40,952 through October 2025 at an interest rate of 3.00% per annum. The note is secured by the Quint Fire Truck. \$115,737

Note payable to Huntington Tech Finance to finance the purchase of police body cameras. The note is due in annual payments of \$43,742 through October 2025 at an interest rate of 3.57% per annum. The note is secured by police body cameras. 122,257

Note payable to Axon Tasers to finance the purchase of police tasers. The note is due in annual payments of \$13,248 through October 2026 at an interest rate of 3.57% per annum. The note is secured by police tasers. 48,714

Total Governmental Activities \$286,708

The debt service requirements on the notes payable at September 30, 2023 are as follows:

| <u>Year Ending September 30,</u> | <u>Governmental Activities</u> | | |
|----------------------------------|--------------------------------|-----------------|------------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
| 2024 | \$ 88,386 | \$ 9,556 | \$ 97,942 |
| 2025 | 91,224 | 6,718 | 97,942 |
| 2026 | 94,306 | 3,636 | 97,942 |
| 2027 | 12,792 | 456 | 13,248 |
| Totals | \$286,708 | \$20,366 | \$307,074 |

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2023

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

E. Right-to-Use Lease Liabilities

The City has right-to-use lease liabilities at September 30, 2023 as follows:

Governmental Activities:

Lease with Benchmark-Xerox for the right-to-use two copy machines. The lease requires monthly payments of \$505 beginning July 2021 through September 2026 at the City's incremental borrowing rate of 3.57% per annum. **\$17,208**

Business-type Activities:

Lease with Benchmark-Xerox for the right-to-use a copy machine. The lease requires monthly payments of \$252 beginning July 2021 through September 2026 at the City's incremental borrowing rate of 3.57% per annum. **\$8,604**

The debt service requirements on the right-to-use lease liabilities at September 30, 2023 are as follows:

| <u>Year Ending September 30,</u> | Governmental Activities | | |
|----------------------------------|--------------------------------|-----------------|-----------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
| 2024 | \$ 5,533 | \$524 | \$ 6,057 |
| 2025 | 5,734 | 323 | 6,057 |
| 2026 | <u>5,941</u> | <u>116</u> | <u>6,057</u> |
| Totals | \$17,208 | \$963 | \$18,171 |

| <u>Year Ending September 30,</u> | Business-type Activities | | |
|----------------------------------|---------------------------------|-----------------|-----------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
| 2024 | \$ 2,767 | \$262 | \$ 3,029 |
| 2025 | 2,867 | 162 | 3,029 |
| 2026 | <u>2,970</u> | <u>59</u> | <u>3,029</u> |
| Totals | \$ 8,604 | \$ 483 | \$ 9,087 |

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2023

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

F. Combined Debt Service Requirements

Debt service requirements on all long-term debt at September 30, 2023 are as follows:

| <u>Year Ending September 30,</u> | Governmental Activities | | |
|----------------------------------|--------------------------------|------------------|--------------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
| 2024 | \$ 149,288 | \$ 38,892 | \$ 188,180 |
| 2025 | 153,677 | 33,888 | 187,565 |
| 2026 | 161,018 | 28,249 | 189,267 |
| 2027 | 74,913 | 22,496 | 97,409 |
| 2028 | 66,173 | 19,474 | 85,647 |
| 2029-2033 | 287,649 | 59,556 | 347,205 |
| 2034-2036 | <u>166,106</u> | <u>10,236</u> | <u>176,342</u> |
| Totals | \$1,058,824 | \$212,791 | \$1,271,615 |

| <u>Year Ending September 30,</u> | Business-type Activities | | |
|----------------------------------|---------------------------------|--------------------|---------------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
| 2024 | \$ 507,398 | \$ 310,790 | \$ 818,188 |
| 2025 | 511,148 | 304,066 | 815,214 |
| 2026 | 527,199 | 295,824 | 823,023 |
| 2027 | 527,879 | 286,818 | 814,697 |
| 2028 | 543,827 | 277,073 | 820,900 |
| 2029-2033 | 2,637,351 | 1,223,668 | 3,861,019 |
| 2034-2038 | 2,448,894 | 930,612 | 3,379,506 |
| 2039-2043 | 2,210,000 | 682,142 | 2,892,142 |
| 2044-2048 | 2,485,000 | 394,610 | 2,879,610 |
| 2049-2051 | <u>1,650,000</u> | <u>68,637</u> | <u>1,718,637</u> |
| Totals | \$14,048,696 | \$4,774,240 | \$18,822,936 |

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, 2023 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.

\$114,670

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2023

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

The debt service requirements on the notes payable at September 30, 2023 are as follows:

| <u>Year Ending September 30,</u> | BDC Notes Payable | | |
|----------------------------------|--------------------------|-----------------------|-------------------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
| 2024 | \$ 74,817 | \$6,877 | \$ 81,694 |
| 2025 | <u>39,853</u> | <u>994</u> | <u>40,847</u> |
| Totals | <u>\$114,670</u> | <u>\$7,871</u> | <u>\$122,541</u> |

8. NET POSITION AND FUND BALANCES

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

| Net Position: | Primary Government | | | Component Unit |
|---|------------------------------------|-------------------------------------|----------------------------|--------------------|
| | <u>Governmental Activities</u> | <u>Business-type Activities</u> | <u>Total</u> | |
| Restricted for: | | | | |
| Debt service | \$ 429,776 | \$4,170,822 | \$4,600,598 | \$ - |
| Public improvements: | | | | |
| Expendable | 180,931 | - | 180,931 | - |
| Nonexpendable | 2,946,142 | - | 2,946,142 | - |
| Perpetual care: | | | | |
| Nonexpendable | 274,899 | - | 274,899 | - |
| Municipal court building security | 37,971 | - | 37,971 | - |
| Municipal court technology | 28,654 | - | 28,654 | - |
| Public, education, and government access | 126,814 | - | 126,814 | - |
| Grants | 1,133,711 | - | 1,133,711 | - |
| Public safety | 10,288 | - | 10,288 | - |
| Parks and aquatics center | 82,946 | - | 82,946 | - |
| Christmas decorations | 4,592 | - | 4,592 | - |
| Tourism | <u>1,018,603</u> | <u>-</u> | <u>1,018,603</u> | <u>-</u> |
| Total restricted net position | <u>\$6,275,327</u> | <u>\$4,170,822</u> | <u>\$10,446,149</u> | <u>\$ -</u> |

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2023

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

| Fund Balances: | Governmental Funds | | | | | |
|--|--------------------|-----------------|-------------------|--------------------------|------------------------|--------------------|
| | General | Grant Fund | Debt Service Fund | Electric Trust Principal | Non-Major Governmental | Total |
| Restricted for: | | | | | | |
| Public improvements | \$180,931 | \$ - | \$ - | \$2,946,142 | \$ - | \$3,127,073 |
| Public, education, and government access | 126,814 | - | - | - | - | 126,814 |
| Debt service | - | - | 429,776 | - | - | 429,776 |
| Municipal court building security | - | - | - | - | 37,971 | 37,971 |
| Municipal court technology | - | - | - | - | 28,654 | 28,654 |
| Grants | - | 81,218 | - | - | 1,052,493 | 1,133,711 |
| Public safety | - | - | - | - | 10,288 | 10,288 |
| Parks and aquatics center | - | - | - | - | 82,946 | 82,946 |
| Christmas decorations | - | - | - | - | 4,592 | 4,592 |
| Tourism | - | - | - | - | 1,018,603 | 1,018,603 |
| Perpetual care | - | - | - | - | 274,899 | 274,899 |
| Total restricted fund balance | \$307,745 | \$81,218 | \$429,776 | \$2,946,142 | \$2,510,446 | \$6,275,327 |
| Committed for: | | | | | | |
| Main Street | \$176,684 | \$ - | \$ - | \$ - | \$ - | \$ 176,684 |
| Assigned for: | | | | | | |
| Deficit budget for 2023-24 | \$323,071 | \$ - | \$ - | \$ - | \$ - | \$ 323,071 |

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, 2023, the Workers Compensation Fund did not incur any claims, stop-loss insurance premiums, or administrative costs. During the same period, the Fund did not receive any charges and fees from the General Fund, the Enterprise Fund or the BDC. Settled claims have not exceeded commercial coverage to date.

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2023

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

As of September 30, 2023, the reserve was \$0. Changes in the claims liability amounts in the fiscal years ended September 30, 2022 and 2023 were:

| | Beginning of Year <u>Liability</u> | Current Year Claims and Changes in <u>Estimates</u> | Claims and <u>Expenses Paid</u> | Balance at Year End <u>\$</u> |
|------------------------|--|--|------------------------------------|-------------------------------------|
| FYE September 30, 2022 | \$ <u> - </u> | \$ <u>2,000</u> | \$ <u>2,000</u> | \$ <u> - </u> |
| FYE September 30, 2023 | \$ <u> - </u> | \$ <u> - </u> | \$ <u> - </u> | \$ <u> - </u> |

10. DEFINED BENEFIT PENSION PLAN

A. Plan Description

The City participates as one of 901 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is a statewide public retirement plan created by the State of Texas and administered in accordance with the Texas Government Code, Title 8, Subtitle G (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, Governor-appointed Board of Trustees; however, TMRS does not receive any funding from 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 Annual Comprehensive Financial Report (ACFR) 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 based on the sum of the employee's contributions with interest, the City-financed monetary credits with interest, and their age at retirement and other actuarial factors. 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 lump sum distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the total member's contributions and interest.

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2023

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

Employees Covered by Benefit Terms

At the December 31, 2022 valuation and measurement date, the following employees were covered by the benefit terms:

| | |
|--|-----|
| Inactive employees or beneficiaries currently receiving benefits | 82 |
| Inactive employees entitled to but not yet receiving benefits | 136 |
| Active employees | 85 |

C. Contributions

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the city matching ratios are either 1:1 (1 to 1), 1.5:1 (1-1/2 to 1) or 2:1 (2 to 1), 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 City's contribution rate is based on the liabilities created from the benefit plan options selected by the City and any changes in benefits or actual experience over time.

Employees of the City were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City were 11.58% and 11.77% in calendar years 2022 and 2023, respectively. The City's contributions to TMRS for the year ended September 30, 2023 were \$556,945, and were equal to the required contributions.

D. Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2022 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, 2022 actuarial valuation was determined using the following actuarial assumptions:

| | |
|---------------------------|--|
| Inflation | 2.5% per year |
| Overall payroll growth | 2.75% per year, adjusted down for population declines, if any |
| 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 are 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, 2023

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 Annuity Purchase Rate (APRs) is based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. 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 weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of real rates of return for each major asset class in fiscal year 2022 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 Public Equity | 35.0% | 7.55% |
| Core Fixed Income | 6.0% | 2.00% |
| Non-Core Fixed Income | 20.0% | 5.68% |
| Other Public and Private Market | 12.0% | 7.22% |
| Real Estate | 12.0% | 6.85% |
| Hedge Funds | 5.0% | 5.35% |
| Private Equity | <u>10.0%</u> | 10.00% |
| 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, 2023

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

Changes in Net Pension Liability / (Asset)

| | Total Pension Liability (a) | Fiduciary Net Position (b) | Increase (Decrease) | Net Pension Liability / (Asset) (a) – (b) |
|--|-----------------------------------|----------------------------------|---------------------|---|
| Balances as of December 31, 2021 | \$24,452,362 | \$24,358,187 | \$ 94,175 | |
| Changes for the year: | | | | |
| Service cost | 649,086 | - | 649,086 | |
| Interest on total pension liability | 1,628,314 | - | 1,628,314 | |
| Change in benefit terms | - | - | - | |
| Difference between expected and actual experience | 252,729 | - | 252,729 | |
| Change in assumptions | - | - | - | |
| Contributions – employer | - | 518,731 | (518,731) | |
| Contributions – employee | - | 313,568 | (313,568) | |
| Net investment income | - | (1,772,811) | 1,772,811 | |
| Benefit payments, including refunds of employee contributions | (1,307,470) | (1,307,470) | - | |
| Administrative expense | - | (15,386) | 15,386 | |
| Other changes | - | 18,361 | (18,361) | |
| Balances as of December 31, 2022 | <u>\$25,675,021</u> | <u>\$22,113,180</u> | <u>\$3,561,841</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 (asset) | <u>\$7,016,370</u> | <u>\$3,561,841</u> | <u>\$741,742</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, 2023

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, 2023, the City recognized pension expense of \$916,416.

At September 30, 2023, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|--------------------------------------|-------------------------------------|
| Differences between expected and actual experience | \$ 209,465 | \$ - |
| Differences in assumption changes | - - | - - |
| Net difference between projected and actual earnings | 1,521,998 | - - |
| Contributions made subsequent to measurement date | <u>418,359</u> | - - |
| Total | \$2,149,822 | \$ - |

\$418,359 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 in the subsequent fiscal year. 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> | |
|--------------------------------|------------------------|
| 2023 | \$ 218,934 |
| 2024 | 420,232 |
| 2025 | 408,901 |
| 2026 | <u>683,396</u> |
| Total | <u>\$1,731,463</u> |

11. DEFINED OTHER POST-EMPLOYMENT 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 post-employment 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, 2023

11. DEFINED OTHER POST-EMPLOYMENT 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 post-employment benefit (OPEB) and is a fixed amount of \$7,500.

Employees Covered by Benefit Terms

At the December 31, 2022 valuation and measurement date, the following employees were covered by the benefit terms:

| | |
|--|----|
| Inactive employees or beneficiaries currently receiving benefits | 59 |
| Inactive employees entitled to but not yet receiving benefits | 21 |
| Active employees | 85 |

C. Total OPEB Liability

The City's Total OPEB Liability is based on an actuarial valuation performed as of December 31, 2022 and a measurement date of December 31, 2022.

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, 2023

11. DEFINED OTHER POST-EMPLOYMENT 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, 2021 | <u>\$488,678</u> |
| Changes for the year: | |
| Service cost | 21,950 |
| Interest on total OPEB liability | 9,049 |
| Change in benefit terms | - |
| Difference between expected and actual experience | (5,504) |
| Change in assumptions or other inputs | (155,067) |
| Benefit payments | (<u>15,678</u>) |
| Net changes | (<u>145,250</u>) |
| Balances as of December 31, 2022 | <u>\$343,428</u> |

Sensitivity Analysis

The following presents the total OPEB liability of the City, calculated using the discount rate of 4.05%, 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 (3.05%) or 1 percentage point higher (5.05%) than the current rate.

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2023

11. DEFINED OTHER POST-EMPLOYMENT BENEFIT PLAN (CONT'D.)

| | 1% Decrease 3.05% | Current Discount Rate 4.05% | 1% Increase 5.05% |
|----------------------|-------------------------|-----------------------------------|-------------------------|
| Total OPEB liability | <u>\$402,753</u> | <u>\$343,428</u> | <u>\$296,903</u> |

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

For the year ended September 30, 2023, the City recognized OPEB expense of \$7,172.

At September 30, 2023, 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 | \$ - | \$ 18,924 |
| Changes in assumptions | 29,842 | 119,419 |
| Contributions made subsequent to measurement date | 19,905 | - |
| Total | <u>\$49,747</u> | <u>\$138,343</u> |

\$19,905 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 in the subsequent fiscal year. 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> | |
|--------------------------------|--------------------|
| 2023 | (\$ 25,688) |
| 2024 | (33,522) |
| 2025 | (36,376) |
| 2026 | (12,915) |
| Total | <u>(\$108,501)</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 \$675,857 per year. The insurance provider pays amounts in excess of the aforementioned. Settled claims have not exceeded commercial insurance coverage as of September 30, 2023. Group life insurance premiums are also paid by the Employee Benefits Trust Fund. During the fiscal year ended September 30, 2023, \$1,039,848 was expended for health benefits, insurance

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2023

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

premiums and administrative costs. Charges and fees for the same period amounted to \$951,087, including \$622,008 from the General Fund, \$170,792 from the Enterprise Fund, \$148,364 from employee payroll deductions, \$9,923 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, 2023, the reserve was \$1,513,170.

The claims liability of \$172,081 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, 2022 and 2023 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, 2022 | \$ 111,501 | \$1,088,184 | \$1,068,978 | \$130,707 |
| FYE September 30, 2023 | \$ 130,707 | \$1,039,848 | \$ 998,474 | \$172,081 |

13. *COMMITMENTS AND CONTINGENCIES*

A. Litigation

No reportable litigation was pending against the City at September 30, 2023.

B. Federal and State Grants – Compliance Audits

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

C. Construction Commitments

The City entered into contracts for construction projects that were still open at September 30, 2023. The total commitment under the contracts is \$6,967,343 and the amount incurred is \$4,972,873 leaving a commitment of \$1,994,470 at September 30, 2023.

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
SEPTEMBER 30, 2023

14. ECONOMIC DEPENDENCY

The City's top ten taxpayers' taxable values equal \$116,045,628, or approximately 25% of the total taxable value for 2022-23. A significant decline in taxable values from these entities could have a material adverse effect on the City's operations.

15. 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.

16. 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 tenth year of the agreement and the total value loss was \$356,607. The reduction in M&O taxes was \$1,436 and I&S taxes was \$454.

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. This is the second year of the agreement and the total value loss was \$33,925,863. The reduction in M&O taxes was \$136,596 and I&S taxes was \$43,177.

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.

REQUIRED SUPPLEMENTARY INFORMATION

THE CITY OF VERNON, TEXAS

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

| | 2014 | 2015 | 2016 | 2017 |
|--|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| Total Pension Liability | | | | |
| Service cost | \$ 628,498 | \$ 572,998 | \$ 522,433 | \$ 492,155 |
| Interest on total pension liability | 1,529,732 | 1,358,771 | 1,382,533 | 1,407,208 |
| Changes of benefit terms | - | (2,689,621) (1) | - | - |
| Difference between expected and actual experience | (672,755) | (206,925) | (376,813) | (454,708) |
| Changes of assumptions | - | 514,583 | - | - |
| Benefit payments/refunds of contributions | <u>(1,264,777)</u> | <u>(1,156,038)</u> | <u>(1,130,326)</u> | <u>(1,164,600)</u> |
| Net change in total pension liability | <u>220,698</u> | <u>(1,606,232)</u> | <u>397,827</u> | <u>280,055</u> |
| Total pension liability, beginning | <u>22,171,455</u> | <u>22,392,153</u> | <u>20,785,921</u> | <u>21,183,748</u> |
| Total pension liability, ending (a) | <u><u>\$ 22,392,153</u></u> | <u><u>\$ 20,785,921</u></u> | <u><u>\$ 21,183,748</u></u> | <u><u>\$ 21,463,803</u></u> |
| Fiduciary Net Position | | | | |
| Contributions - employer | \$ 734,220 | \$ 687,295 | \$ 426,631 | \$ 436,406 |
| Contributions - employee | 286,327 | 261,472 | 255,558 | 250,552 |
| Net investment income | 939,988 | 25,252 | 1,142,644 | 2,436,928 |
| Benefit payments/refunds of contributions | <u>(1,264,777)</u> | <u>(1,156,038)</u> | <u>(1,130,326)</u> | <u>(1,164,600)</u> |
| Administrative expenses | <u>(9,814)</u> | <u>(15,383)</u> | <u>(12,913)</u> | <u>(12,641)</u> |
| Other | <u>(807)</u> | <u>(760)</u> | <u>(696)</u> | <u>(640)</u> |
| Net change in fiduciary net position | <u>685,137</u> | <u>(198,162)</u> | <u>680,898</u> | <u>1,946,005</u> |
| Fiduciary net position, beginning | <u>16,430,966</u> | <u>17,116,103</u> | <u>16,917,941</u> | <u>17,598,839</u> |
| Fiduciary net position, ending (b) | <u><u>\$ 17,116,103</u></u> | <u><u>\$ 16,917,941</u></u> | <u><u>\$ 17,598,839</u></u> | <u><u>\$ 19,544,844</u></u> |
| Net pension liability, ending = (a)-(b) | <u><u>\$ 5,276,050</u></u> | <u><u>\$ 3,867,980</u></u> | <u><u>\$ 3,584,909</u></u> | <u><u>\$ 1,918,959</u></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> |
| Covered employee payroll | <u>\$ 4,090,382</u> | <u>\$ 3,735,319</u> | <u>\$ 3,650,828</u> | <u>\$ 3,579,312</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> |

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.

| 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|
| \$ 506,345 1,424,443 | \$ 542,719 1,460,532 | \$ 559,614 1,502,802 | \$ 589,399 1,547,985 | \$ 649,086 1,628,314 |
| - | - | - | - | - |
| (209,414) - | (204,744) (19,307) | (225,959) - | 287,914 - | 252,729 - |
| <u>(1,228,219)</u> <u>493,155</u> | <u>(1,181,627)</u> <u>597,573</u> | <u>(1,141,216)</u> <u>695,241</u> | <u>(1,222,708)</u> <u>1,202,590</u> | <u>(1,307,470)</u> <u>1,222,659</u> |
| <u>21,463,803</u> <u>\$ 21,956,958</u> | <u>21,956,958</u> <u>\$ 22,554,531</u> | <u>22,554,531</u> <u>\$ 23,249,772</u> | <u>23,249,772</u> <u>\$ 24,452,362</u> | <u>24,452,362</u> <u>\$ 25,675,021</u> |
| | | | | |
| \$ 450,044 252,631 (584,676) | \$ 453,909 264,372 2,841,617 | \$ 476,292 271,281 1,574,146 | \$ 499,006 286,314 2,854,417 | \$ 518,731 313,568 (1,772,811) |
| (1,228,219) (11,315) (590) | (1,181,627) (16,093) (483) | (1,141,216) (10,209) (399) | (1,222,708) (13,243) 92 | (1,307,470) (15,386) 18,361 |
| <u>(1,122,125)</u> <u>19,544,844</u> <u>\$ 18,422,719</u> | <u>2,361,695</u> <u>18,422,719</u> <u>\$ 20,784,414</u> | <u>1,169,895</u> <u>20,784,414</u> <u>\$ 21,954,309</u> | <u>2,403,878</u> <u>21,954,309</u> <u>\$ 24,358,187</u> | <u>(2,245,007)</u> <u>24,358,187</u> <u>\$ 22,113,180</u> |
| <u>\$ 3,534,239</u> | <u>\$ 1,770,117</u> | <u>\$ 1,295,463</u> | <u>\$ 94,175</u> | <u>\$ 3,561,841</u> |
| | | | | |
| <u>83.90%</u> | <u>92.15%</u> | <u>94.43%</u> | <u>99.61%</u> | <u>86.13%</u> |
| <u>\$ 3,609,017</u> | <u>\$ 3,776,749</u> | <u>\$ 3,875,446</u> | <u>\$ 4,090,207</u> | <u>\$ 4,479,547</u> |
| | | | | |
| <u>97.93%</u> | <u>46.87%</u> | <u>33.43%</u> | <u>2.30%</u> | <u>79.51%</u> |

THE CITY OF VERNON, TEXAS

REQUIRED SUPPLEMENTARY INFORMATION SCHEDULE OF CONTRIBUTIONS TEXAS MUNICIPAL RETIREMENT SYSTEM

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

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 | 23 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.

| 2020 | 2021 | 2022 | 2023 |
|----------------------------|----------------------------|----------------------------|----------------------------|
| \$ 467,393 | \$ 496,757 | \$ 506,494 | \$ 556,945 |
| <u>(467,393)</u> | <u>(496,757)</u> | <u>(506,494)</u> | <u>(556,945)</u> |
| <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| <u><u>\$ 3,826,262</u></u> | <u><u>\$ 4,064,338</u></u> | <u><u>\$ 4,318,428</u></u> | <u><u>\$ 4,751,219</u></u> |
| <u><u>12.22%</u></u> | <u><u>12.22%</u></u> | <u><u>11.73%</u></u> | <u><u>11.72%</u></u> |

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

| | 2020 | 2021 | 2022 |
|---------------------|---------------------|---------------------|------|
| \$ 14,727 | \$ 20,860 | \$ 21,950 | |
| 11,801 | 9,378 | 9,049 | |
| - | - | - | |
| (35,603) | (5,368) | (5,504) | |
| 57,504 | 14,126 | (155,067) | |
| (5,813) | (17,588) | (15,678) | |
| <u>42,616</u> | <u>21,408</u> | <u>(145,250)</u> | |
| | | | |
| 424,654 | 467,270 | 488,678 | |
| <u>\$ 467,270</u> | <u>\$ 488,678</u> | <u>\$ 343,428</u> | |
| | | | |
| <u>\$ 3,875,446</u> | <u>\$ 4,090,207</u> | <u>\$ 4,479,547</u> | |
| | | | |
| <u>12.06%</u> | <u>11.95%</u> | <u>7.67%</u> | |