

THE CITY OF VERNON, TEXAS

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2009

The City of Vernon, Texas
 Annual Financial Report
 For The Year Ended September 30, 2009

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Financial Section

Independent Auditor's Report on Financial Statements

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of The City of Vernon, Texas as of and for the year ended September 30, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of The City of Vernon, Texas' management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the City's component unit, the Business Development Corporation of Vernon (BDC). Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to amounts included for BDC, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, 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, 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis, the budgetary information, and schedule of funding progress identified as Required Supplementary Information in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

Respectfully submitted,

Edgin, Parkman, Fleming & Fleming, PC

Edgin, Parkman, Fleming & Fleming, PC

May 20, 2010

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, 2009. Please read it in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$20,886,421 (net assets). Of this amount, \$4,360,397 (unrestricted net assets) may be used to meet the City's obligations.
- During the year, the City's total net assets increased by \$345,023.
- The governmental funds reported a fund balance this year of \$4,635,739, which is a decrease of \$159,164 in comparison with the prior year amount. \$846,245, or 18% of this amount, is available for spending at the government's discretion (unreserved fund balance).
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$846,245, or 13% of the total General Fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

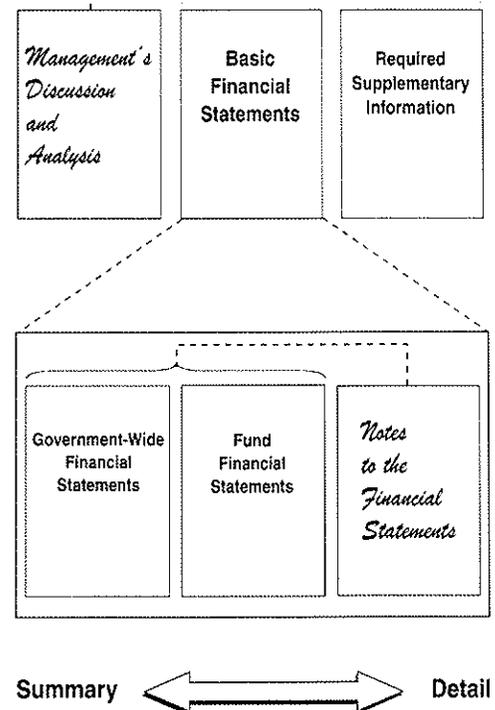


Figure A-2 summarizes the major features of the City's financial statements, including the portion of the City's government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each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

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

Type of Statements	Fund Statements		
	Government-wide	Governmental Funds	Proprietary Funds
Scope	Entire Agency's government (except fiduciary funds) and the Agency's component units	The activities of the City that are not proprietary or fiduciary	Activities the City operates similar to private businesses - the water and sewer system
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • 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 assets • Statement of revenues, expenses, and changes in net assets • 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 assets 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 assets and how they have changed. Net assets—the difference between the City's assets and liabilities—is one way to measure the City's financial health or *position*.

- Over time, increases or decreases in the City's net assets 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, sanitation, 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 and sewer 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 assets. The City's combined net assets were \$20,886,421 at September 30, 2009. (See Table A-1)

Table A-1
City's Net Assets

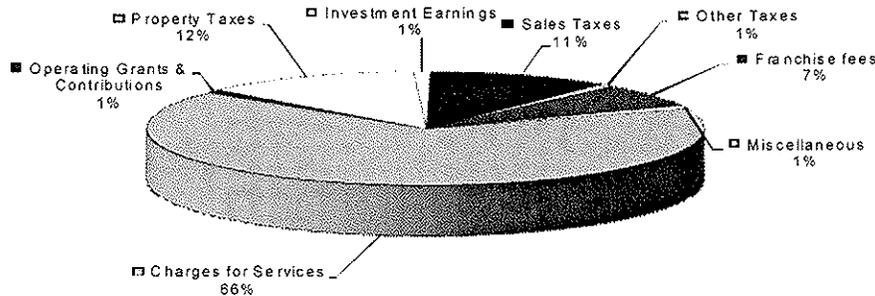
	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Current and other assets	\$ 6,513,048	\$ 6,708,683	\$ 2,747,014	\$ 4,526,355	\$ 9,260,062	\$ 11,235,038
Capital assets, net	4,337,177	3,889,279	18,864,713	18,462,400	23,201,890	22,351,679
Total assets	10,850,225	10,597,962	21,611,727	22,988,755	32,461,952	33,586,717
Long-term liabilities	2,096,256	2,022,348	8,691,899	9,397,350	10,788,155	11,419,698
Other liabilities	415,009	505,762	372,367	1,119,859	787,376	1,625,621
Total liabilities	2,511,265	2,528,110	9,064,266	10,517,209	11,575,531	13,045,319
Net assets						
Invested in capital assets, net of related debt	2,458,636	2,320,392	10,235,024	9,117,925	12,693,660	11,438,317
Restricted	3,789,494	3,678,406	42,870	1,353,532	3,832,364	5,031,938
Unrestricted	2,090,830	2,071,054	2,269,567	2,000,089	4,360,397	4,071,143
Total net assets	\$ 8,338,960	\$ 8,069,852	\$ 12,547,461	\$ 12,471,546	\$ 20,886,421	\$ 20,541,398

The \$4,360,397 of unrestricted net assets at September 30, 2009 represents resources available to fund the programs of the City next year if sufficient resources are not derived from future resources. The restricted net assets are required to be set aside for long-term debt, public improvements and various other activities.

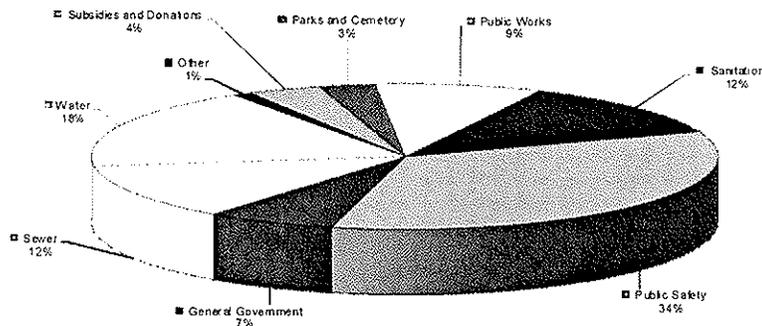
Changes in net assets. The City's total revenues, both program and general, were \$11,189,900. A significant portion, 66%, of the City's revenue comes from charges for services. (See Figure A-3.) 11% comes from sales taxes, 12% from property taxes and 7% from franchise fees. Other minor categories combined make up less than 4% of the City's total revenues.

The total cost of all programs and services was \$10,844,877; 42%, of these costs are for water, sewer and sanitation related expenses. The City's expenses cover a range of services, with 34% related to public safety, 9% for public works and 7% for general government. (See Figure A-4.)

**Figure A-3
Source of Revenue for Fiscal Year 2009**



**Figure A-4
Functional Expense for Fiscal Year 2009**



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 Assets

	Governmental		Business-type		Total	
	Activities		Activities			
	2009	2008	2009	2008	2009	2008
Revenues						
Program revenues						
Charges for services	\$ 1,398,225	\$ 1,363,107	\$ 5,499,040	\$ 5,374,820	\$ 6,897,265	\$ 6,737,927
Capital grants and contributions	320,520	144,046	90,523		411,043	144,046
General revenues						
Property taxes	1,340,275	1,279,701			1,340,275	1,279,701
Sales taxes	1,097,788	1,120,053			1,097,788	1,120,053
Franchise fees	725,992	643,973			725,992	643,973
Other taxes	341,132	311,477			341,132	311,477
Investment earnings	144,619	184,948	63,394	75,661	208,013	260,609
Gain on sale of capital assets	19,257	61,246			19,257	61,246
Seizure income	9,582	4,651			9,582	4,651
Miscellaneous	129,139	140,457	10,414	10,397	139,553	150,854
Total revenues	5,526,529	5,253,659	5,663,371	5,460,878	11,189,900	10,714,537
Expenses						
General government	677,078	736,956			677,078	736,956
Public Safety	3,619,272	3,232,530			3,619,272	3,232,530
Public Works	863,790	856,919			863,790	856,919
Cemetery and Parks	327,567	281,347			327,567	281,347
Other	441,334	379,908			441,334	379,908
Christmas decorations	5,431	9,449			5,431	9,449
Civic and cultural	41,117	27,810			41,117	27,810
Economic development	135,226	185,998			135,226	185,998
Interest	79,479	80,609			79,479	80,609
Water, sewer and sanitation			4,654,583	4,266,696	4,654,583	4,266,696
Total expenses	6,190,294	5,791,526	4,654,583	4,266,696	10,844,877	10,058,222
Transfers	932,873	939,669	(932,873)	(939,669)	-	-
Increase in net assets	\$ 269,108	\$ 401,802	\$ 75,915	\$ 254,513	\$ 345,023	\$ 656,315

The most significant fluctuation between years relates to the following:

- Charges for services increased by \$159,338, which is mostly due to consumption increases in water usage from the prior year.
- Investment earnings decreased \$52,596, due mostly to falling interest rates.
- We have been aggressively pursuing grants which resulted in an increase of \$266,997 in Capital grants and Contributions.
- Public safety expenses increased \$386,742. The increase was the result of several factors, that include fines from traffic and code enforcement, which results in increased remittance to the State, replacement of damaged Ambulance and grant expenditures for property cleanups.

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

- The cost of all *governmental* activities this year was \$6,190,294; however, the amount that our taxpayers paid for these activities through property taxes was only \$1,340,275.
- Some of the cost was paid by those who directly benefited from the programs through charges for services of \$1,398,225.

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

	Total Cost of Services		Net Cost of Services	
	2009	2008	2009	2008
General government	\$ 677,078	\$ 736,956	\$ 363,557	\$ 455,050
Public safety	3,619,272	3,232,530	2,655,322	2,486,263
Public works	863,790	856,919	634,677	640,459
Cemetery and parks	327,567	281,347	162,640	65,307
Economic development	135,226	185,998	135,226	27,810
Subsidies, donations and other	441,334	379,908	403,194	341,708
Christmas decorations	5,431	9,449	(3,663)	1,169
Civic and cultural	41,117	27,810	41,117	185,998
Interest	79,479	80,609	79,479	80,609
Total	\$ 6,190,294	\$ 5,791,526	\$ 4,471,549	\$ 4,284,373

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Revenues from governmental funds totaled \$5,447,288, an increase of \$343,776 or 6.7%. Most of the increase relates to the increase in grant revenues of \$175,660, a 129% increase due to aggressive grant writing, and to the increase of ambulance service revenues of \$112,002, a 31% increase. In the prior year, ambulance service revenue experienced a significant drop due to problems with the previous ambulance billing contractor. The switch to a new ambulance billing contractor resulted in stable ambulance service revenues in the current year when compared to prior years.

Expenditures from governmental funds totaled \$6,763,936 an increase of \$150,832 or 2.2%. There were several factors affecting the increase as follows:

- General government expenditures decreased by \$92,758. This variance does not reflect a trend. The prior year saw an unusual expenditure increase due to the retirement costs of several key administrators.
- Public safety expenditures increased \$161,539 due to the acquisition of a new Police Station and additional overtime for fire and ambulance operations. The vacant building was donated by the local Tyson plant to the City, but still required significant make-ready for its new use as Police Station and Municipal Court.
- Capital outlay increased by \$59,937 due to equipment replacement.

General Fund Budgetary Highlights

Over the course of the year, the City did not revise its budget except at the end of the year as has been done historically. Thus, actual expenditures were \$369,623 above final budget amounts. Almost all departments were under budgeted amounts. However, the largest amounts of over budget spending came from capital outlay and debt service on capital leases.

Revenues were below the final budgeted amounts by \$299,676. The most significant variances were in sales tax and amounts budgeted for in lieu of payment of taxes from other funds. Sales tax revenues were \$152,212 below the final budgeted amount while current and delinquent ad valorem taxes were \$51,755 below the final budgeted amounts.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At September 30, 2009, the City had invested in a broad range of capital assets totaling \$23,201,890, 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	
	2009	2008	2009	2008	2009	2008
Land	\$ 981,029	\$ 981,029	\$ 721,690	\$ 721,690	\$ 1,702,719	\$ 1,702,719
Construction in progress	31,440	31,440		2,735,320	31,440	2,766,760
Buildings and improvements	1,831,213	1,719,641	17,659,317	14,504,183	19,490,530	16,223,824
Equipment, furniture, fixtures	578,223	590,357	398,838	442,313	977,061	1,032,670
Vehicles	915,272	566,811	84,868	58,894	1,000,140	625,705
Total net assets	\$ 4,337,177	\$ 3,889,278	\$ 18,864,713	\$ 18,462,400	\$ 23,201,890	\$ 22,351,678

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

For the City's Fiscal Year ending 2010, the City plans capital additions including:

General- 1 new Loader for Street Department, 4 new Police Cruisers with Video (includes One for SRO), building improvements for New Police Station that was donated by Tyson, one full time employee that splits time between court and police reception, a new ladder truck (if the grant application is unsuccessful) and storage building for the Fire Department. A new mower and office addition for the Cemetery Department. Additional labor in the Parks Department. One used Bucket truck for Special Services. The total outlay for these items comes to \$227,297. That includes outright purchases and first years financing of vehicles.

Business Type – 2 Half Ton Pickups for Water and Wastewater, New GIS Mapping (with help from a grant from the Business Development Corporation), and a building remodel for the Wastewater Plant. The total outlay for these items comes to \$24,500. That includes outright purchases and first years financing of vehicles. Two new Ground storage tanks, rehabilitation of the Ion-Exchange Unit and a new Discharge Line to the Pease River are to be included in an approximate \$3.175 million bond.

Long-term Obligations

At September 30, 2009, the City had \$10,788,155 in bonds, compensated absences, and leases outstanding as shown in Table A-5. More detailed information about the City's long-term obligations is presented in the notes to the financial statements.

**Table A-5
Outstanding Debt**

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Capital Leases	\$ 438,541	\$ 361,443	\$ 149,689	\$ 144,475	\$ 588,230	\$ 505,918
Certificates of Obligation	1,440,000	1,475,000			1,440,000	1,475,000
Compensated absences	217,715	185,905	62,210	52,875	279,925	238,780
Revenue Bonds	-	-	8,480,000	9,200,000	8,480,000	9,200,000
Total	\$ 2,096,256	\$ 2,022,348	\$ 8,691,899	\$ 9,397,350	\$ 10,788,155	\$ 11,419,698

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES:

Appraised value used for the 2009-10 budget preparation is \$352,431,590, up over 13 million, or 3.8% above last year's value. We planned for sales tax to decrease slightly due to downward trends in the travel industry and the economy. This downturn should be offset partially by ramping up of use of the new Wilbarger Event Center. These indicators were taken into consideration when adopting the General Fund budget for 2009-10.

Revenues and other financing sources in the General Fund budget are \$6,201,620, an increase of 5.8% over estimated year end for 2008-09. Property tax revenue will decrease an estimated .14% under the anticipated revenue for the year ending September 30, 2010. The tax rate adopted is \$0.374244 per \$100 of assessed valuation. This new rate is 1.3% below the prior year.

General Fund expenditures are budgeted at \$6,201,620, an increase of 5.8% over the anticipated expenses for 2009-10.

If these estimates are realized, the City's budgetary General Fund's fund balance is not expected to change appreciably by the close of 2009-10.

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 ASSETS

SEPTEMBER 30, 2009

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
ASSETS				
<i>Cash and cash equivalents</i>	\$ 5,616,628	\$ 1,797,189	\$ 7,413,817	\$ 655,422
<i>Investments</i>	--	--	--	--
<i>Receivables (net of allowances for uncollectibles)</i>	884,427	429,469	1,313,896	1,948
<i>Due from primary government</i>	--	--	--	94,040
<i>Internal balances</i>	(140,077)	140,077	--	--
<i>Other assets</i>	326	450	776	1,332
<i>Escrow deposit</i>	2,000	--	2,000	--
Restricted assets:				
<i>Cash and cash equivalents</i>	130,895	183,002	313,897	--
<i>Ad valorem taxes receivable</i>	--	3,980	3,980	--
<i>Bond issue costs (net of accumulated amortization)</i>	18,849	192,847	211,696	--
<i>Capital assets (net of accumulated depreciation)</i>	4,337,177	18,864,713	23,201,890	577,144
Total assets	10,850,225	21,611,727	32,461,952	1,329,886
LIABILITIES				
<i>Accounts payable</i>	311,056	171,872	482,928	935
<i>Sales tax payable</i>	--	35,240	35,240	--
<i>Due to component unit</i>	94,040	--	94,040	--
<i>Accrued interest payable</i>	9,913	15,318	25,231	2,070
<i>Customer deposits</i>	--	149,937	149,937	--
Long-term liabilities:				
Portion due or payable within one year:				
<i>Compensated absences</i>	174,182	37,326	211,508	--
<i>Capital lease payable</i>	83,200	22,192	105,392	--
<i>Bonds payable</i>	40,000	750,000	790,000	--
<i>Note payable</i>	--	--	--	352,657
Portion due or payable after one year:				
<i>Compensated absences</i>	43,533	24,884	68,417	--
<i>Capital lease payable</i>	355,341	127,497	482,838	--
<i>Bonds payable</i>	1,400,000	7,730,000	9,130,000	--
Total liabilities	2,511,265	9,064,266	11,575,531	355,662
NET ASSETS				
<i>Invested in capital assets, net of related debt</i>	2,458,636	10,235,024	12,693,660	224,487
Restricted for:				
<i>Debt service</i>	--	42,867	42,867	--
<i>Capital projects</i>	--	3	3	--
Public improvements:				
<i>Expendable</i>	527,223	--	527,223	--
<i>Nonexpendable</i>	2,802,077	--	2,802,077	--
Perpetual care:				
<i>Nonexpendable</i>	377,114	--	377,114	--
<i>Public safety</i>	16,138	--	16,138	--
<i>Christmas decorations</i>	14,239	--	14,239	--
<i>Tourism program</i>	52,703	--	52,703	--
<i>Economic development</i>	--	--	--	749,737
<i>Unrestricted</i>	2,090,830	2,269,567	4,360,397	--
Total net assets	\$ 8,338,960	\$ 12,547,461	\$ 20,886,421	\$ 974,224

The accompanying notes are an integral part of this statement.

THE CITY OF VERNON, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2009

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Governmental activities:			
<i>General government</i>	\$ 677,078	\$ 313,521	\$ --
<i>Public safety</i>	3,619,272	724,514	239,436
<i>Public works</i>	863,790	229,113	--
<i>Cemetery and parks</i>	327,567	92,937	71,990
<i>Subsidies, donations, and other</i>	441,334	38,140	--
<i>Christmas decorations</i>	5,431	--	9,094
<i>Civic and cultural</i>	41,117	--	--
<i>Economic development</i>	135,226	--	--
<i>Interest expense</i>	79,479	--	--
Total governmental activities	6,190,294	1,398,225	320,520
Business-type activities:			
<i>Water</i>	1,886,760	2,598,300	--
<i>Sewer</i>	1,329,663	1,493,552	90,523
<i>Sanitation</i>	1,339,576	1,308,539	--
<i>Other</i>	98,584	98,649	--
Total business-type activities	4,654,583	5,499,040	90,523
Total primary government	\$ 10,844,877	\$ 6,897,265	\$ 411,043
Component unit:			
<i>Business Development Corporation of Vernon</i>	\$ 1,043,963	\$ --	\$ --

General Revenues:

Taxes:
<i>Ad valorem taxes</i>
<i>Franchise and occupation tax</i>
<i>Sales tax</i>
<i>Hotel occupancy tax</i>
<i>Other taxes</i>
<i>Seizure income</i>
<i>Interest</i>
<i>Miscellaneous</i>
Special item - gain on sale of capital assets
Transfers
Total general revenues, special items, and transfers
Change in net assets
Net assets - beginning
Net assets - ending

The accompanying notes are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Assets

Governmental Activities	Business-type Activities	Total	Component Unit
\$ (363,557)	\$ --	\$ (363,557)	\$ --
(2,655,322)	--	(2,655,322)	--
(634,677)	--	(634,677)	--
(162,640)	--	(162,640)	--
(403,194)	--	(403,194)	--
3,663	--	3,663	--
(41,117)	--	(41,117)	--
(135,226)	--	(135,226)	--
(79,479)	--	(79,479)	--
(4,471,549)	--	(4,471,549)	--
--	711,540	711,540	--
--	254,412	254,412	--
--	(31,037)	(31,037)	--
--	65	65	--
--	934,980	934,980	--
(4,471,549)	934,980	(3,536,569)	--
			(1,043,963)
1,340,275	--	1,340,275	--
725,992	--	725,992	--
1,097,788	--	1,097,788	548,876
227,374	--	227,374	--
113,758	--	113,758	--
9,582	--	9,582	--
144,619	63,394	208,013	20,418
129,139	10,414	139,553	--
19,257	--	19,257	--
932,873	(932,873)	--	--
4,740,657	(859,065)	3,881,592	569,294
269,108	75,915	345,023	(474,669)
8,069,852	12,471,546	20,541,398	1,448,893
\$ 8,338,960	\$ 12,547,461	\$ 20,886,421	\$ 974,224

THE CITY OF VERNON, TEXAS
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2009

	General Fund	Electric Trust Principal	Other Governmental Funds	Total Governmental Funds
ASSETS				
<i>Assets:</i>				
<i>Cash and cash equivalents</i>	\$ 637,124	\$ 2,810,726	\$ 788,260	\$ 4,236,110
<i>Receivables (net of allowances for uncollectibles):</i>				
<i>Ambulance</i>	239,035	--	--	239,035
<i>Ad valorem taxes</i>	131,679	--	--	131,679
<i>Sales taxes</i>	279,544	--	--	279,544
<i>Accounts</i>	125,119	--	61,200	186,319
<i>Due from other funds</i>	55,337	--	28,560	83,897
<i>Other assets</i>	326	--	--	326
<i>Restricted assets:</i>				
<i>Cash</i>	130,895	--	--	130,895
Total Assets	\$ 1,599,059	\$ 2,810,726	\$ 878,020	\$ 5,287,805
LIABILITIES AND FUND BALANCES				
<i>Liabilities:</i>				
<i>Accounts payable</i>	\$ 185,782	\$ --	\$ 10,337	\$ 196,119
<i>Due to other funds</i>	53,034	8,649	--	61,683
<i>Due to component unit</i>	94,040	--	--	94,040
<i>Deferred property tax revenue</i>	120,810	--	--	120,810
<i>Deferred ambulance revenue</i>	179,414	--	--	179,414
Total Liabilities	633,080	8,649	10,337	652,066
<i>Fund balances:</i>				
<i>Reserved for public improvements</i>	119,734	2,802,077	407,489	3,329,300
<i>Reserved for law enforcement</i>	--	--	13,003	13,003
<i>Reserved for fire department</i>	--	--	3,135	3,135
<i>Reserved for Christmas decorations</i>	--	--	14,239	14,239
<i>Reserved for tourism promotion</i>	--	--	52,703	52,703
<i>Reserved for perpetual care</i>	--	--	377,114	377,114
<i>Unreserved, undesignated</i>	846,245	--	--	846,245
Total fund balances	965,979	2,802,077	867,683	4,635,739
Total Liabilities and Fund Balances	\$ 1,599,059	\$ 2,810,726	\$ 878,020	\$ 5,287,805

The accompanying notes are an integral part of this statement.

THE CITY OF VERNON, TEXAS

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET ASSETS
 SEPTEMBER 30, 2009

Total fund balances - governmental funds balance sheet	\$ 4,635,739
Amounts reported for governmental activities in the statement of net assets ("SNA") are different because:	
Capital assets used in governmental activities are not reported in the funds.	4,337,177
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	120,810
Ambulance receivable unavailable to pay for current period expenditures are deferred in the funds.	179,414
Franchise tax receivable in the SNA not providing current financial resources are not reported as receivables in the funds.	46,696
The assets and liabilities of internal service funds are included in governmental activities in the SNA.	1,106,444
Issuance costs of debt is recorded as an expenditure in the funds, but capitalized in the SNA.	18,849
Payables for Certificates of Obligation which are not due in the current period are not reported in the funds.	(1,440,000)
Payables for capital leases which are not due in the current period are not reported in the funds.	(438,541)
Payables for compensated absences which are not due in the current period are not reported in the funds.	(217,715)
Payables for accrued interest on long-term debt which are not due in the current period are not reported in the funds.	(9,913)
Net assets of governmental activities - statement of net assets	\$ <u>8,338,960</u>

The accompanying notes are an integral part of this statement.

THE CITY OF VERNON, TEXAS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS FOR THE YEAR ENDED SEPTEMBER 30, 2009

	General Fund	Electric Trust Principal	Other Governmental Funds	Total Governmental Funds
<i>Revenues:</i>				
Current ad valorem taxes	\$ 1,260,397	\$ --	\$ --	\$ 1,260,397
Delinquent ad valorem taxes	26,492	--	--	26,492
Penalties and interest	26,203	--	--	26,203
Franchise and occupation tax	699,427	--	--	699,427
Fines and forfeitures	115,494	--	--	115,494
Court tax	105,104	--	--	105,104
Property rentals	10,575	--	--	10,575
Cemetery income	76,118	--	--	76,118
Sales tax	1,097,788	--	--	1,097,788
Housing Authority	3,493	--	--	3,493
Permits	10,354	--	--	10,354
Plumbing inspection fees	289	--	--	289
Contracts	81,066	--	--	81,066
Swimming pool	4	--	--	4
Mixed drink tax	5,161	--	--	5,161
Ambulance service	478,356	--	--	478,356
Administrative charges to other funds	652,906	--	--	652,906
Grants and donations	239,436	--	71,990	311,426
Seizure income	--	--	9,582	9,582
Christmas decorations	--	--	9,094	9,094
Hotel/motel tax	--	--	227,374	227,374
Interest	23,993	69,869	17,584	111,446
Miscellaneous	111,600	--	17,539	129,139
Total revenues	5,024,256	69,869	353,163	5,447,288
<i>Expenditures:</i>				
General government	668,862	--	--	668,862
Public safety	3,400,353	--	7,444	3,407,797
Public works	828,017	--	--	828,017
Cemetery and parks	293,369	--	17,000	310,369
Other	437,834	--	3,500	441,334
Christmas decorations	--	--	5,431	5,431
Civic and cultural	--	--	41,117	41,117
Economic development	--	--	135,226	135,226
Capital outlay	683,127	--	--	683,127
<i>Debt service:</i>				
Principal	159,898	--	--	159,898
Interest charges	82,758	--	--	82,758
Total expenditures	6,554,218	--	209,718	6,763,936
Excess of revenues over (under) expenditures	(1,529,962)	69,869	143,445	(1,316,648)
<i>Other financing sources (uses):</i>				
Transfers in	993,275	--	--	993,275
Transfers out	--	(52,402)	(8,000)	(60,402)
Financing under capital leases	201,996	--	--	201,996
Sale of perpetual care spaces	--	--	3,358	3,358
Sale of surplus equipment	19,257	--	--	19,257
Total other financing sources (uses)	1,214,528	(52,402)	(4,642)	1,157,484
Excess of revenues and other financing sources over (under) expenditures and other financing uses	(315,434)	17,467	138,803	(159,164)
Fund balances/equity, October 1	1,281,413	2,784,610	728,880	4,794,903
Fund balances/equity, September 30	\$ 965,979	\$ 2,802,077	\$ 867,683	\$ 4,635,739

The accompanying notes are an integral part of this statement.

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, 2009

Net change in fund balances - total governmental funds	\$ (159,164)
Amounts reported for governmental activities in the statement of activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	683,127
The depreciation of capital assets used in governmental activities is not reported in the funds.	(235,228)
The internal service funds' activities related to the General Fund are consolidated into the SOA.	29,244
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	27,183
Certain ambulance revenues are deferred in the funds. This is the change in these amounts this year.	(30,295)
Franchise tax revenues in the SOA not providing current financial resources are not reported as revenues in the funds.	26,565
Repayment of capital lease principal is an expenditure in the funds but is not an expense in the SOA.	124,898
Repayment of certificate of obligation principal is an expenditure in the funds but is not an expense in the SOA.	35,000
(Increase) decrease in accrued interest on capital leases from beginning of period to end of period.	3,279
Compensated absences are reported as the amount earned in the SOA but as the amount paid in the funds.	(31,810)
Debt financing is reported in the funds but not in the SOA.	(201,996)
Debt issuance costs are capitalized and amortized in the SNA, but expensed in the funds in the year of issuance. This is the amortization for this year.	(1,695)
Change in net assets of governmental activities - statement of activities	<u>\$ 269,108</u>

The accompanying notes are an integral part of this statement.

THE CITY OF VERNON, TEXAS

STATEMENT OF NET ASSETS

PROPRIETARY FUNDS

SEPTEMBER 30, 2009

	Enterprise Fund	Internal Service Funds
	Utility Fund	
ASSETS		
Cash and cash equivalents	\$ 1,797,189	\$ 1,380,518
Receivables (net of allowances for uncollectibles):		
Ad valorem taxes receivable	3,980	--
Utility billings	421,900	--
Accounts	7,569	1,154
Due from other funds	53,035	--
Escrow deposit	--	2,000
Other assets	450	--
Restricted assets:		
Cash	183,002	--
Bond issue costs (net of accumulated amortization)	192,847	--
Capital assets (net of accumulated depreciation)	18,864,713	--
Total Assets	<u>21,524,685</u>	<u>1,383,672</u>
LIABILITIES		
Accounts payable	171,872	114,937
Sales tax payable	35,240	--
Due to other funds	62,165	13,082
Accrued interest payable	15,318	--
Liabilities payable from restricted assets:		
Customer deposits payable	149,937	--
Long-term liabilities:		
Portion due or payable within one year:		
Compensated absences payable	37,326	--
Capital leases payable	22,192	--
Bonds payable	750,000	--
Portion due or payable after one year:		
Compensated absences payable	24,884	--
Capital leases payable	127,497	--
Bonds payable	7,730,000	--
Total Liabilities	<u>9,126,431</u>	<u>128,019</u>
NET ASSETS:		
Invested in capital assets net of related debt	10,235,024	--
Restricted for:		
Construction	3	--
Debt service	42,867	--
Unrestricted	2,120,360	1,255,653
Total net assets	<u>12,398,254</u>	<u>\$ 1,255,653</u>
Reconciliation to government-wide statement of net assets:		
Adjustment to reflect the consolidation of Internal Service Funds' activities related to the Enterprise Fund	149,207	
Net assets of business-type activities	<u>\$ 12,547,461</u>	

The accompanying notes are an integral part of this statement.

THE CITY OF VERNON, TEXAS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET ASSETS - PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2009

	Enterprise Fund	Internal Service Funds
	Utility Fund	
OPERATING REVENUES:		
Water	\$ 2,582,748	\$ --
Sewer	1,493,552	--
Sanitation	1,308,539	--
Charges and fees	--	743,033
Interest and carrying charges	97,826	--
Other operating revenues	10,414	--
Total Operating Revenues	<u>5,493,079</u>	<u>743,033</u>
OPERATING EXPENSES:		
Billing and collection	217,184	--
Water	1,297,408	--
Sewer	831,848	--
Sanitation	1,260,778	--
Other operating expenses	41,298	--
Insurance claims and related costs	--	747,978
Bad debts	57,286	--
Depreciation	606,556	--
Total Operating Expenses	<u>4,312,358</u>	<u>747,978</u>
Operating Income (Loss)	<u>1,180,721</u>	<u>(4,945)</u>
NON-OPERATING REVENUES (EXPENSES):		
Grant revenues	90,523	--
Penalty and interest	823	--
Interest income	63,394	33,173
Rent	15,552	--
Interest expense	(327,337)	--
Amortization of bond issue costs	(13,871)	--
Total Non-operating Revenues (Expenses)	<u>(170,916)</u>	<u>33,173</u>
Net Income before Transfers	1,009,805	28,228
TRANSFERS:		
Transfers out	(932,872)	--
Net income	76,933	28,228
Net assets, October 1	12,321,321	1,227,425
Net assets, September 30	<u>\$ 12,398,254</u>	<u>\$ 1,255,653</u>
Reconciliation to government-wide statement of activities:		
Adjustment to reflect the consolidation of Internal Service Funds' activities related to the Enterprise Fund	(1,018)	
Change in net assets of business-type activities	<u>\$ 75,915</u>	

The accompanying notes are an integral part of this statement.

THE CITY OF VERNON, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2009

	Enterprise Fund	Internal Service Funds
	Utility Fund	
Cash Flows from Operating Activities:		
<i>Cash received from customers</i>	\$ 5,470,965	\$ 754,961
<i>Cash payments to suppliers for goods and services</i>	(3,715,646)	--
<i>Cash payments to employees for services</i>	(698,481)	--
<i>Cash payments to claimants/beneficiaries</i>	--	(676,595)
Net Cash Provided by Operating Activities	<u>1,056,838</u>	<u>78,366</u>
Cash Flows from Non-capital Financing Activities:		
<i>Grant revenues</i>	90,523	--
<i>Penalties and interest</i>	823	--
<i>Increase in customer deposits</i>	3,991	--
<i>Payments to other funds</i>	(932,872)	--
Net Cash Used by Non-capital Financing Activities	<u>(837,535)</u>	<u>--</u>
Cash Flows from Capital and Related Financing Activities:		
<i>Principal and interest paid</i>	(1,073,344)	--
<i>Acquisition or construction of capital assets</i>	(967,672)	--
Net Cash Used for Capital & Related Financing Activities	<u>(2,041,016)</u>	<u>--</u>
Cash Flows from Investing Activities:		
<i>Interest received</i>	63,394	33,173
<i>Rents received</i>	15,552	--
Net Cash Provided for Investing Activities	<u>78,946</u>	<u>33,173</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(1,742,767)	111,539
Cash and Cash Equivalents at Beginning of Year	3,722,958	1,268,979
Cash and Cash Equivalents at End of Year	<u>\$ 1,980,191</u>	<u>\$ 1,380,518</u>
Reconciliation of operating income to net cash provided by operating activities:		
<i>Operating income (loss)</i>	\$ 1,180,721	\$ (4,945)
<i>Depreciation expense</i>	606,556	--
<i>Decrease (increase) in receivables</i>	(22,114)	(1,154)
<i>Increase (decrease) in accounts payable</i>	(752,018)	71,383
<i>Increase (decrease) in other operating liabilities</i>	43,693	13,082
Net Cash Provided by Operating Activities	<u>\$ 1,056,838</u>	<u>\$ 78,366</u>
Reconciliation of cash and cash equivalents on the balance sheet to the statement of cash flows:		
Cash and cash equivalents	\$ 1,797,189	\$ 1,380,518
Restricted assets - cash and cash equivalents	183,002	--
Total cash and cash equivalents at end of year	<u>\$ 1,980,191</u>	<u>\$ 1,380,518</u>

The accompanying notes are an integral part of this statement.

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2009

A. Summary of Significant Accounting Policies

The combined financial statements of The City of Vernon, Texas (City) have been prepared in conformity with accounting principles applicable to governmental units which are generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

1. Reporting Entity

The City's basic financial statements include the accounts of all its operations. The City evaluated whether any other entity should be included in these financial statements. The criteria for including organizations as component units within the City's reporting entity, as set forth in GASB Statement No. 14, "The Financial Reporting Entity," include whether:

- the organization is legally separate (can sue and be sued in its name)
- the City holds the corporate powers of the organization
- the City appoints a voting majority of the organization's board
- the City is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the City
- there is fiscal dependency by the organization on the City
- the exclusion of the organization would result in misleading or incomplete financial statements

The City also evaluated each legally separate, tax-exempt organization whose resources are used principally to provide support to the City to determine if its omission from the reporting entity would result in financial statements which are misleading or incomplete. GASB Statement No. 14 requires inclusion of such an organization as a component unit when: 1) The economic resources received or held by the organization are entirely or almost entirely for the direct benefit of the City, its component units or its constituents; and 2) The City or its component units is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the organization; and 3) Such economic resources are significant to the City.

Based on these criteria, the City includes the Business Development Corporation of Vernon (BDC) as a component unit. The City is not a component unit of any other reporting entity as defined by the GASB Statement. The Vernon Business Development Corporation issued separately audited Component Unit Financial Statements, copies of which may be obtained at its office.

2. Basis of Presentation and Accounting

a. Governmental Accounting Standards Board Statement No. 34

These financial statements include implementation of Governmental Accounting Standards Board (GASB) Statement No. 34 - Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments (as amended by GASB Statement No. 37 - Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments). Significant requirements of these statements include the following:

A Management's Discussion and Analysis (MD&A) section providing an analysis of the City's overall financial position and changes in financial position.

Government-wide financial statements prepared using the accrual basis of accounting for all of the City's governmental activities.

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2009

Fund financial statements focusing on the major funds.

Statement No. 34 established standards for external financial reporting for all state and local governmental entities, which includes a statement of net assets and a statement of activities. It requires the reclassification of net assets into three components - invested in capital assets net of related debt; restricted; and unrestricted. These classifications are defined as follows:

Invested in capital assets net of related debt - This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted - This component of net assets consists of constraints placed on net assets use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulation of other governments or constraints imposed by law through contractual provisions or enabling legislation.

Unrestricted net assets - This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets net of related debt".

b. **Basis of Presentation**

Government-wide Statements: The statement of net assets and the statement of activities include the financial activities of the overall government. Eliminations have been made to minimize the double-counting of internal activities. These statements distinguish between the governmental and business-type activities of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The City does not allocate indirect expenses in the statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the City's funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

The City reports the following major governmental funds:

General Fund. This is the City's primary operating fund. It accounts for all financial resources of the City except those required to be accounted for in another fund.

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2009

Electric Trust Principal Fund. This 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 re-invested. 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:

Enterprise Fund. This fund accounts for the activities of City-owned utilities which provide water, sewer and sanitation services to the community.

In addition, the City reports the following fund types:

Internal Service Funds: These 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.

c. Measurement Focus, Basis of Accounting

Government-wide and Proprietary Fund Financial Statements: These financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting," all proprietary funds will continue to follow Financial Accounting Standards Board (FASB) standards issued on or before November 30, 1989. However, from that date forward, proprietary funds will have the option of either 1) choosing not to apply future FASB standards (including amendments of earlier pronouncements), or 2) continuing to follow new FASB pronouncements unless they conflict with GASB guidance. The City has chosen not to apply future FASB standards.

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2009

3. Financial Statement Amounts

a. Cash and Cash Equivalents

For purposes of the statement of cash flows, highly liquid investments are considered to be cash equivalents if they have a maturity of three months or less when purchased.

b. Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available (1) when they become due or past due and receivable within the current period and (2) when they are expected to be collected during a 60-day period after the close of the fiscal year. Where property taxes are levied to service Enterprise Fund debt, revenue is recognized when due, net of amounts estimated to be uncollectible. Delinquent taxes are prorated between the General and Enterprise Funds based on rates adopted for the year of the levy.

Allowances for uncollectible tax receivables within the General Fund are based upon historical experience in collecting property 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.

c. 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.

d. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. A capitalization threshold of \$5,000 is used.

Major general infrastructure assets such as land and buildings for which historic cost data are available, are reported under the City's general capitalization policy. The City has elected not to report major general infrastructure assets such as roads and bridges retroactively. Future acquisitions of such assets will be reported under the City's general capitalization policy.

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Infrastructure	30-50
Buildings	30-50
Land Improvements	20-30
Vehicles	4-10
Machinery & Equipment	5-15

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2009

e. Receivable and Payable Balances

The City believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation. Therefore, no disclosure is provided which disaggregates those balances.

There are no significant receivables which are not scheduled for collection within one year of year end.

f. 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.

g. Interfund Activity

Interfund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers In and Transfers Out are netted and presented as a single "Transfers" line on the government-wide statement of activities. Similarly, interfund receivables and payables are netted and presented as a single "Internal Balances" line of the government-wide statement of net assets.

h. Use of Estimates

The preparation of financial statements in conformity with GAAP requires the use of management's estimates.

4. Budgetary Data

The following procedures are followed in establishing the budgetary data reflected in the basic financial statements:

- a. Prior to the beginning of the fiscal year, the City prepares a budget for the next succeeding fiscal year. The operating budget includes proposed expenditures and the means of financing them.
- b. A meeting of the City Commission is then called for the purpose of adopting the proposed budget. At least ten days' public notice of the meeting must have been given.
- c. Prior to the start of the fiscal year, the budget is legally enacted through passage of an ordinance by the City Commission.

Once a budget is approved, it can be amended only by approval of a majority of the members of the City Commission. As required by law, such amendments are made before the fact, are reflected in the official minutes of the City Commission and are not made after fiscal year end. During the year, the budget may be amended as necessary. All budget appropriations lapse at year end.

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2009

5. Encumbrance Accounting

Encumbrances for goods or purchased services are documented by purchase orders or contracts. Under Texas law, appropriations lapse at September 30, and encumbrances outstanding at that time are to be either canceled or appropriately provided for in the subsequent year's budget. The City had no outstanding end-of-year encumbrances.

B. Compliance and Accountability

1. Finance-Related Legal and Contractual Provisions

In accordance with GASB Statement No. 38, "Certain Financial Statement Note Disclosures," violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

For the year ended September 30, 2009, the City overexpended five functional areas of the General Fund and in total (see Note O). The City will be more diligent in monitoring its actual expenditures compared to the City's adopted budget during the year.

Debt covenants require the City to deposit certain amounts into a debt service sinking fund bank account for future payment of debt obligations. At September 30, 2009, the required balance was \$187,500, but the bank account was \$3,731; consequently, the balance was \$183,769 short.

2. Deficit Fund Balance or Fund Net Assets of Individual Funds

At September 30, 2009, the City did not have any funds with deficit fund balances or fund net assets.

C. Deposits and Investments

The City's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the City's agent bank approved pledged securities in an amount sufficient to protect City funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance.

Cash Deposits:

At September 30, 2009, all City funds were deposited in interest bearing checking accounts. Under the terms of the depository contract in effect at that time, interest was earned at a fixed rate of 2.50% compounded monthly.

At September 30, 2009, the carrying amount of the City's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$7,413,817 and the bank balance was \$7,840,093. The City's cash deposits at September 30, 2009, and during the year ended September 30, 2009, were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name.

The BDC deposits funds in an interest-bearing checking account. Excess funds are invested in bank certificates of deposit. The carrying amount of the BDC's checking account and certificates of deposit at September 30, 2009 was \$655,422. Amounts not covered by FDIC insurance were collateralized by pledged securities as of September 30, 2009.

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2009

Investments:

The City is required by Government Code Chapter 2256, The Public Funds Investment 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, and maturity and the quality and capability of investment management; and 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 Public Funds Investment Act (Act) requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the basic financial statements disclosed that in the areas of investment practices, management reports and establishment of appropriate policies, the City adhered to the requirements of the Act. Additionally, investment practices of the City were in accordance with local policies.

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

The City's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes. Nonnegotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.

The City's investments at September 30, 2009 are shown below. Those investments which are evidenced by securities that exist in physical or book entry form are as follows:

<u>Investment - City of Vernon</u>	<u>Fair Value</u>	<u>Weighted Maturity (Days)</u>
Money Market accounts	\$ 2,810,727	1

The BDC's investments at September 30, 2009 are shown below. Those investments which are evidenced by securities that exist in physical or book entry form are as follows:

<u>Investments - Component Unit</u>	<u>Fair Value</u>	<u>Weighted Maturity (Days)</u>
Money Market accounts	\$ 600,000	1

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2009

D. Capital Assets

Capital asset activity for the period ended September 30, 2009 was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
<i>Governmental activities:</i>				
<i>Capital assets not being depreciated:</i>				
Land	\$ 981,029	\$ --	\$ --	\$ 981,029
Construction in Progress	31,440	--	--	31,440
Total capital assets not being depreciated	1,012,469	--	--	1,012,469
<i>Capital assets being depreciated:</i>				
Buildings and improvements	2,255,352	163,503	--	2,418,855
Equipment, furniture, fixtures, etc.	1,279,510	58,366	25,286	1,312,590
Vehicles	1,809,350	461,258	106,024	2,164,584
Total capital assets being depreciated	5,344,212	683,127	131,310	5,896,029
<i>Less accumulated depreciation for:</i>				
Buildings and improvements	535,711	51,931	--	587,642
Equipment, furniture, fixtures, etc.	689,153	70,500	25,286	734,367
Vehicles	1,242,539	112,797	106,024	1,249,312
Total accumulated depreciation	2,467,403	235,228	131,310	2,571,321
Total capital assets being depreciated, net	2,876,809	447,899	--	3,324,708
Governmental activities capital assets, net	\$ 3,889,278	\$ 447,899	\$ --	\$ 4,337,177

Depreciation was charged to departments as follows:

General Government	\$ 13,777
Public Safety	177,077
Public Works	29,975
Cemetery and Parks	14,399
	\$ 235,228

	Beginning Balances	Increases	Decreases	Ending Balances
<i>Business-type activities:</i>				
<i>Capital assets not being depreciated:</i>				
Land	\$ 721,690	\$ --	\$ --	\$ 721,690
Construction in progress	2,735,320	838,096	3,573,416	--
Total capital assets not being depreciated	3,457,010	838,096	3,573,416	721,690
<i>Capital assets being depreciated:</i>				
Buildings and improvements	21,392,927	3,688,993	--	25,081,920
Equipment, furniture, fixtures, etc.	1,068,944	5,000	--	1,073,944
Vehicles	236,539	50,196	--	286,735
Total capital assets being depreciated	22,698,410	3,744,189	--	26,442,599
<i>Less accumulated depreciation for:</i>				
Buildings and improvements	6,888,744	533,859	--	7,422,603
Equipment, furniture, fixtures, etc.	626,631	48,475	--	675,106
Vehicles	177,645	24,222	--	201,867
Total accumulated depreciation	7,693,020	606,556	--	8,299,576
Total capital assets being depreciated, net	15,005,390	3,137,633	--	18,143,023
Business-type activities capital assets, net	\$ 18,462,400	\$ 3,975,729	\$ 3,573,416	\$ 18,864,713

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2009

Depreciation was charged to departments as follows:

Water	\$	345,828
Sewer		254,485
Sanitation		6,243
	\$	<u>606,556</u>

E. Interfund Balances and Activity

1. Due To and From Other Funds

Balances due to and due from other funds at September 30, 2009 consisted of the following:

Due To Fund	Due From Fund	Amount	Purpose
General Fund	Enterprise Fund	\$ 2,574	Retained sales tax
General Fund	Enterprise Fund	31,031	Revenue transfer
General Fund	Electric Trust Principal Fund	8,649	Revenue transfer
General Fund	Internal Service Fund	13,082	Employee benefit transfer
Enterprise Fund	General Fund	10,169	Delinquent ad valorem taxes
Enterprise Fund	General Fund	42,865	Debt service transfer
Other Governmental Funds	Enterprise Fund	7,511	Christmas decorations
Other Governmental Funds	Enterprise Fund	21,049	Debt service transfer
	Total	<u>\$ 136,930</u>	

All amounts due are scheduled to be repaid within one year.

2. Transfers To and From Other Funds

Transfers to and from other funds at September 30, 2009 consisted of the following:

Transfers To	Transfers From	Amount	Reason
General Fund	Enterprise Fund	\$ 932,872	Payments in lieu of taxes
General Fund	Other Governmental Funds	8,000	Revenue transfer
General Fund	Electric Trust Principal Fund	52,403	Revenue transfer
	Total	<u>\$ 993,275</u>	

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2009

F. Receivables

Receivables and related allowances for uncollectibles consisted of the following items on September 30, 2009:

	Gross Receivable	Allowance	Net Receivable
General Fund:			
Ambulance billings	\$ 1,437,283	\$ 1,198,248	\$ 239,035
Ad valorem taxes	185,676	53,997	131,679
Sales taxes	279,544	--	279,544
Accounts	125,119	--	125,119
Other Governmental Funds:			
Grants	61,200	--	61,200
Accounts	28,560	--	28,560
Enterprise Fund:			
Ad valorem taxes	4,536	556	3,980
Utility billings	793,455	371,555	421,900
Accounts	7,569	--	7,569

G. Long-Term Obligations

1. 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, 2009 are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Governmental activities:					
Capital leases	\$ 361,443	\$ 201,996	\$ 124,898	\$ 438,541	\$ 83,200
Certificates of obligation	1,475,000	--	35,000	1,440,000	40,000
Compensated absences *	185,905	186,459	154,649	217,715	174,182
Total governmental activities	\$ 2,022,348	\$ 388,455	\$ 314,547	\$ 2,096,256	\$ 297,382
Business-type activities:					
Revenue bonds	\$ 9,200,000	--	\$ 720,000	\$ 8,480,000	\$ 750,000
Capital leases	144,475	41,196	35,982	149,689	22,192
Compensated absences *	52,875	42,908	33,573	62,210	37,326
Total business-type activities	\$ 9,397,350	\$ 84,104	\$ 789,555	\$ 8,691,899	\$ 809,518

* - Other long-term liabilities

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

Liability	Activity Type	Fund
Compensated absences	Governmental	General Fund
Compensated absences	Business-type	Enterprise Fund

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
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2. Outstanding Bonds

At September 30, 2009, the City had the following bonds outstanding:

Governmental activities:

Combination Tax and Revenue Certificates of Obligation, Series 2005 due through 2030 with interest rates ranging from 3.75% to 6.75% \$ 1,440,000

Business-type activities:

Tax and Waterworks and Sewer System Surplus Revenue Certificates of Obligation, Series 2000 due through 2020 with interest rates ranging from 3.75% to 4.55% 3,300,000

Tax and Revenue Certificates of Obligation, Series 2002 due through 2023 with interest rates from .70% to 3.35% 2,240,000

General Obligation Refunding Bonds, Series 2004 due through 2016 with interest rates from 3.50% to 4.25% 2,940,000

Total business-type activities 8,480,000

Total all bonds \$ 9,920,000

3. Debt Service Requirements on Long-Term Bonds

Debt service requirements on long-term bonds at September 30, 2009 are as follows:

Year Ending September 30,	Governmental Activities		
	Principal	Interest	Total
2010	\$ 40,000	\$ 64,046	\$ 104,046
2011	40,000	61,346	101,346
2012	45,000	58,478	103,478
2013	45,000	55,440	100,440
2014	45,000	52,571	97,571
2015-2019	280,000	230,494	510,494
2020-2024	360,000	166,419	526,419
2025-2029	475,000	77,892	552,892
2030	110,000	2,406	112,406
Totals	\$ 1,440,000	\$ 769,092	\$ 2,209,092

Year Ending September 30,	Business-type Activities		
	Principal	Interest	Total
2010	\$ 750,000	\$ 320,486	\$ 1,070,486
2011	785,000	293,783	1,078,783
2012	815,000	263,713	1,078,713
2013	845,000	232,128	1,077,128
2014	880,000	199,171	1,079,171
2015-2019	3,480,000	488,678	3,968,678
2020-2023	925,000	56,969	981,969
Totals	\$ 8,480,000	\$ 1,854,928	\$ 10,334,928

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2009

4. Capital Leases

Commitments under capitalized lease agreements for facilities and equipment provide for minimum future lease payments as of September 30, 2009 as follows:

Year Ending September 30:	Governmental Activities	Business Type Activities
2010	\$ 99,149	\$ 26,279
2011	111,031	36,741
2012	107,034	37,035
2013	92,235	34,556
2014	41,703	22,066
2015-16	38,181	9,396
Total Minimum Lease Payments	489,333	166,073
Less: amount representing interest	(50,792)	(16,384)
Present value of minimum lease payments	\$ 438,541	\$ 149,689

The effective interest rates on capital leases are 3.37% - 4.65%.

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

	Governmental Activities	Business Type Activities
Machinery & equipment	\$ 204,136	\$ 138,937
Vehicles	557,405	111,284
Less: accumulated depreciation	(159,381)	(59,106)
Net	\$ 602,160	\$ 191,115

5. Combined Debt Service Requirements

Debt service requirements on all long-term debt at September 30, 2009 are as follows:

Year Ending September 30,	Governmental Activities		
	Principal	Interest	Total
2010	\$ 123,200	\$ 79,995	\$ 203,195
2011	136,665	75,712	212,377
2012	141,125	69,387	210,512
2013	131,406	61,269	192,675
2014	84,246	55,028	139,274
2015-2019	316,899	231,776	548,675
2020-2024	360,000	166,419	526,419
2025-2029	475,000	77,892	552,892
2030	110,000	2,406	112,406
Totals	\$ 1,878,541	\$ 819,884	\$ 2,698,425

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
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Year Ending September 30,	Business-type Activities		
	Principal	Interest	Total
2010	\$ 772,192	\$ 324,573	\$ 1,096,765
2011	816,798	298,726	1,115,524
2012	848,267	267,481	1,115,748
2013	877,304	234,380	1,111,684
2014	901,040	200,197	1,101,237
2015-2019	3,489,088	488,986	3,978,074
2020-2023	925,000	56,969	981,969
Totals	\$ 8,629,689	\$ 1,871,312	\$ 10,501,001

6. 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. Interest Costs

Interest costs for the year consisted of the following:

	Current Expenditure/ Expense	Capitalized	Total Interest
Governmental Activities	\$ 82,758	\$ --	\$ 82,758
Business-type Activities	327,337	--	327,337
	\$ 410,095	\$ --	\$ 410,095

I. Risk Management

The City is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2009, the City obtained general liability coverage at a cost that is considered to be economically justifiable by joining together with other governmental entities in the State as a member of the Texas Municipal League Intergovernmental Risk Pool (TML). TML is a self-funded pool operating as a common risk management and insurance program. The City pays an annual premium to TML for its above insurance coverage. The agreement for the formation of TML provides that TML will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of acceptable risk levels; however, each category of coverage has its own level of reinsurance. The City continues to carry commercial insurance for other risks of loss. 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.

During the fiscal year ended September 30, 1992, the City began a self-insurance program for workmen's compensation. The Workmen's Compensation Fund, an internal service fund, was established for this program. Under current arrangements, this program is administered by the Texas Municipal League. Stop-loss insurance is carried to cover claims in excess of \$250,000 in the aggregate. During the fiscal year ended September 30, 2009, the Workmen's Compensation Fund expended \$47,250 for claims, stop-loss insurance premiums, and administrative costs. During the same period, the Fund did not receive any charges and fees from the General Fund, the Enterprise Fund or the Business Development Corporation of Vernon (BDC). Settled claims have not exceeded commercial coverage to date.

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
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When payments are received from the General and Enterprise Funds and the BDC, they are based on estimates of the amounts needed to pay current and prior claims and other expenses, and to establish a reserve for catastrophic losses. The estimates are based on the City's historical cost data. As of September 30, 2009, the reserve was \$262,289. The claims of \$30,503 are based on the requirements of GASB Statement Number 10 which requires that a liability for claims be reported if information available prior to issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the claims liability amounts in the fiscal years ended September 30, 2008 and 2009 were:

	Beginning-of- Year Liability	Current-Year Claims and Changes in Estimates	Claims and Expenses Paid	Balance at Year-End
FYE September 30, 2008	\$ 60,375	\$ (23,375)	\$ 30,454	\$ 6,546
FYE September 30, 2009	\$ 6,546	\$ 47,250	\$ 23,293	\$ 30,503

J. Pension Plan

1. Plan Description

The City provides pension benefits for all of its full-time employees through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), an agent multiple employer public employee retirement system. The plan provisions that have been adopted by the City are within the options available in the governing state statutes of TMRS.

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of contributions, benefits, and actuarial methods and assumptions used by TMRS. This report may be obtained by writing TMRS, P.O. Box 149153, Austin, Texas 78714-9153 or by calling 800-924-8677; in addition, the report is available on TMRS' website at www.tMrs.org.

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount at least equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100%, 150%, or 200%) of the employee's accumulated contributions. In addition, the City can grant, as often as annually, another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and City matching percent had always been in existence and if the employee's salary had always been the average of his salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity.

Members can retire at ages 60 and above with 5 or more years of service or with 25 years of service regardless of age. A member is vested after 5 years. The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes.

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
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2. Contributions

The contribution rate for employees is 7%, and the City ratio is currently 2 to 1, both as adopted by the governing body of the City. Under the state law governing TMRS, the actuary annually determines the City contribution rate. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to the City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his/her retirement becomes effective. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan's 29-year amortization period. The projected unit credit actuarial cost method is used for determining the City contribution rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect. (i.e. December 31, 2008 valuation is effective for rates beginning January, 2010).

Schedule of Actuarial Liabilities and Funding Progress

Actuarial valuation date	12/31/2008
Actuarial value of assets	\$ 4,918,920
Actuarial accrued liability	\$ 10,642,225
Unfunded actuarial accrued liability (UAAL)	\$ 5,723,305
Funded Ratio	46.22%
Annual covered payroll	\$ 3,524,654
UAAL as a percentage of covered payroll	162.38%
Net pension obligation (NPO) at the beginning of period	\$ --
Annual pension cost	
Annual required contribution (ARC)	\$ 439,253
Contributions made	\$ 439,253
NPO at the end of the period	\$ --
Two preceding years:	
12/31/07:	
Annual Pension Cost	\$ 438,732
Percentage of Annual Pension Costs Contributed	100.0%
NPO at the end of the period	--
12/31/06:	
Annual Pension Cost	\$ 452,533
Percentage of Annual Pension Costs Contributed	100.0%
NPO at the end of the period	--

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2009

3. Actuarial Assumptions

Actuarial cost method	Projected Unit Credit
Amortization method	Level Percent of Payroll
Remaining amortization period	29 years - closed period
Asset valuation method	Amortized Cost
Investment rate of return	7.5%
Projected salary increases	Varies by age and service
Includes inflation at	3%
Cost of living adjustments	2.1%

A schedule of funding progress is presented as required supplementary information for the Texas Municipal Retirement System. This schedule provides multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial liability for benefits.

K. Group Term Life Insurance Plan

The City participates in the cost-sharing multiple-employer defined benefit group-term life insurance plan operated by TMRS known as Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group-term insurance coverage to both current and retired employees. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of contributions, benefits, and actuarial methods and assumptions used by TMRS. This report may be obtained by writing TMRS, P.O. Box 149153, Austin, Texas 78714-9153 or by calling 800-924-8677; in addition, the report is available on TMRS' website at www.tmr.org.

The death benefit for active employees provides for a lump-sum payment of 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); retired employees are insured for \$7,500; this coverage is an "other postemployment benefit" or OPEB.

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. For the months in calendar year 2007, 2008, and 2009, this rate was 0.43%, 0.42%, and 0.36%, respectively. 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 life insurance during employees' entire careers.

The City's contribution to the TMRS SDBF for the years ended September 30, 2009, 2008, and 2007 were \$1,899, \$2,124, and \$1,948, respectively, which equaled the required contributions each year.

L. 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 \$50,000 of medical expenses per covered person up to an aggregate amount of \$674,749 per year. The insurance provider pays amounts in excess of the aforementioned up to \$950,000 per covered person or an aggregate amount of \$1,000,000. Settled claims have not exceeded commercial insurance coverage as of September 30, 2009. Group life insurance premiums are also paid by the Employee Benefits Trust Fund. During the fiscal year ended September 30, 2009, \$700,728 was expended for health benefits, insurance premiums and administrative costs. Charges and fees for the same period amounted to \$743,034, including \$485,387 from the General Fund, \$125,967 from the Enterprise Fund, \$117,836 from employee payroll deductions, and \$13,844 from the Business Development Corporation of Vernon. These amounts were recorded as current expenditures in the charged funds and component unit.

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2009

Both the General and Enterprise Funds and The Business Development Corporation of Vernon participate in the self-insurance program and make payments to the internal service fund based on estimates of the amounts needed to pay current and prior year claims and other expenses, and to establish a reserve for catastrophic losses. The estimates are derived from the City's historical cost experience. At September 30, 2009, the reserve was \$993,365. The claims liability of \$84,434 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, 2008 and 2009 were:

	Beginning-of- Year Liability	Current-Year Claims and Changes in Estimates	Claims and Expenses Paid	Balance at Year-End
FYE September 30, 2008	\$ 24,379	\$ 492,941	\$ 480,312	\$ 37,008
FYE September 30, 2009	\$ 37,008	\$ 700,728	\$ 653,302	\$ 84,434

M. Commitments and Contingencies

1. Litigation

No reportable litigation was pending against the City at September 30, 2009.

2. 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 collectibility 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.

N. 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 post-closure care requirements for landfills accepting solid waste after April 9, 1994. As a result, landfill operators are required to perform certain closing functions and post-closure monitoring and maintenance functions. The Governmental Accounting Standards Board has issued its Statement Number 18 to establish accounting principles for post-closure 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 post-closure 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.

THE CITY OF VERNON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2009

O. Expenditures in Excess of Budgeted Amounts

During the year ended September 30, 2009, the City had expenditures in excess of the budgeted amounts in the General Fund as follows:

General government	\$	12,063
Cemetery and parks		8,096
Capital outlay		309,821
Capital lease principal		62,495
Capital lease interest		71,708

P. Subsequent Event

On November 24, 2009, the City Commissioners authorized the issuance of Tax and Waterworks and Sewer System Surplus Revenue Certificates of Obligation for \$3,175,000 to fund various related water system projects.

Required Supplementary Information

Required supplementary information includes financial information and disclosures required by the Governmental Accounting Standards Board but not considered a part of the basic financial statements.

THE CITY OF VERNON, TEXAS
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED SEPTEMBER 30, 2009

EXHIBIT B-1

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<i>Revenues:</i>				
Current ad valorem taxes	\$ 1,288,644	\$ 1,288,644	\$ 1,260,397	\$ (28,247)
Delinquent ad valorem taxes	50,000	50,000	26,492	(23,508)
Penalties and interest	35,000	35,000	26,203	(8,797)
Franchise and occupation tax	703,000	703,000	699,427	(3,573)
Fines and forfeitures	75,000	75,000	115,494	40,494
Court tax	54,975	54,975	105,104	50,129
Property rentals	9,975	9,975	10,575	600
Cemetery income	67,969	67,969	76,118	8,149
Sales tax	1,250,000	1,250,000	1,097,788	(152,212)
Housing Authority	3,077	3,077	3,493	416
Permits	10,736	10,736	10,354	(382)
Plumbing inspection fees	260	260	289	29
Contracts	84,882	84,882	81,066	(3,816)
Swimming pool	--	--	4	4
Mixed drink tax	4,372	4,372	5,161	789
Ambulance service	488,618	488,618	478,356	(10,262)
Administrative charges to other funds	652,906	652,906	652,906	--
In lieu of sales tax from other funds	63,029	63,029	--	(63,029)
In lieu of franchise tax from other funds	277,465	277,465	--	(277,465)
In lieu of ad valorem tax from other funds	79,948	79,948	--	(79,948)
Grants and donations	--	--	239,436	239,436
Interest	24,000	24,000	23,993	(7)
Miscellaneous	100,076	100,076	111,600	11,524
Total revenues	5,323,932	5,323,932	5,024,256	(299,676)
<i>Expenditures:</i>				
General government	656,799	656,799	668,862	(12,063)
Public safety	3,463,851	3,463,851	3,400,353	63,498
Public works	847,699	847,699	828,017	19,682
Cemetery and parks	285,273	285,273	293,369	(8,096)
Other	449,214	449,214	437,834	11,380
Capital outlay	373,306	373,306	683,127	(309,821)
<i>Debt service:</i>				
Capital lease principal	97,403	97,403	159,898	(62,495)
Capital lease interest	11,050	11,050	82,758	(71,708)
Total expenditures	6,184,595	6,184,595	6,554,218	(369,623)
Excess of revenues over (under) expenditures	(860,663)	(860,663)	(1,529,962)	(669,299)
<i>Other financing sources (uses):</i>				
Transfers in	623,444	623,444	993,275	369,831
Transfers out	(5,509)	(5,509)	--	5,509
Financing under capital leases	220,728	220,728	201,996	(18,732)
Sale of surplus equipment	22,000	22,000	19,257	(2,743)
Total other financing sources (uses)	860,663	860,663	1,214,528	353,865
Excess of revenues and other financing sources over (under) expenditures and other financing uses	--	--	(315,434)	(315,434)
Fund balances/equity, October 1	1,281,413	1,281,413	1,281,413	--
Fund balances/equity, September 30	\$ 1,281,413	\$ 1,281,413	\$ 965,979	\$ (315,434)

THE CITY OF VERNON, TEXAS
SCHEDULE OF FUNDING PROGRESS
TEXAS MUNICIPAL RETIREMENT SYSTEM
YEAR ENDED SEPTEMBER 30, 2009

EXHIBIT B-2

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/2006	\$ 6,161,282	\$ 9,623,499	\$ 3,462,217	64.0%	\$ 3,024,123	114.5%
12/31/2007	5,845,375	11,123,303	5,277,928	52.6%	3,178,320	166.1%
12/31/2008	4,918,920	10,642,225	5,723,305	46.2%	3,524,654	162.4%