

City of Vernon, Florida

ANNUAL FINANCIAL REPORT

September 30, 2018

CITY OF VERNON, FLORIDA

AT September 30, 2018

MAYOR

Laura Brewer

COUNCIL MEMBERS

Joey Brock
Gwendolyn V. March
Jeanie Shipes
Becky Baxley

CITY CLERK

Tracy Walker

AUDITORS

Grimsley & Associates, P.A.
Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

GRIMSLEY & ASSOCIATES

Professional Association

Certified Public Accountants

OWEN W. GRIMSLEY, C.P.A.

MEMBER
FLORIDA INSTITUTE AND
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council Members
City of Vernon, Florida
Vernon, Florida 32462

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Vernon, Florida, as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise City of Vernon, Florida's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Vernon, Florida as of September 30, 2018, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information and schedules of the City's proportionate share of the net pension liability and of its contributions on pages 33-35 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the management discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statement in an appropriate operational, economic, or historical context. Our opinion on the basic financial statement is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 16, 2020, on our consideration of the City of Vernon, Florida's internal control over financial reporting on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Vernon, Florida's internal control over financial reporting and compliance.

Grimsley & Associates

Marianna, Florida
June 16, 2020

Grimsley and Associates, P.A.
Certified Public Accountants

FINANCIAL STATEMENTS

City of Vernon, Florida
Statement of Net Position
September 30, 2018

	Primary Government		
	Governmental	Business-type	Total
	Activities	Activities	
ASSETS			
Cash and Cash Equivalents	\$ 110,318	\$ 85,948	\$ 196,266
Restricted Assets	-	36,227	36,227
Accounts Receivable		35,084	35,084
Due from other Governments	20,751	-	20,751
Internal Balances	143,964	(143,964)	-
Capital Assets:			
Land, Improvements, and Construction In Progress	249,112	86,988	336,100
Other Capital Assets, Net of Depreciation	<u>8,116,274</u>	<u>11,318,016</u>	<u>19,434,290</u>
Total Capital Assets	<u>8,365,386</u>	<u>11,405,004</u>	<u>19,770,390</u>
Total Assets	<u>8,640,419</u>	<u>11,418,299</u>	<u>20,058,718</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pension	<u>23,019</u>	<u>21,249</u>	<u>44,268</u>
LIABILITIES			
Accounts Payable and Accrued Expenses	5,314	38,892	44,206
Customer Deposits	-	36,743	36,743
Long Term Liabilities:			
Due within one year	19,792	58,631	78,423
Due in more than one year	141,239	684,883	826,122
Net pension liability	<u>58,316</u>	<u>53,852</u>	<u>112,168</u>
Total Liabilities	<u>224,661</u>	<u>873,001</u>	<u>1,097,662</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pension	<u>16,089</u>	<u>14,851</u>	<u>30,940</u>
NET POSITION			
Invested in Capital Assets, Net of Related Debt	8,204,355	10,661,490	18,865,845
Restricted for:			
Other Purposes	-	36,227	36,227
Unrestricted	<u>218,333</u>	<u>(146,021)</u>	<u>72,312</u>
Total Net Position	<u>\$ 8,422,688</u>	<u>\$ 10,551,696</u>	<u>\$ 18,974,384</u>

The notes to the financial statements are an integral part of this statement.

City of Vernon, Florida
Statement of Activities
For the Year Ending September 30, 2018

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Position</u>		
		<u>Fees, Fines and Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Primary Government Business-type Activities</u>	<u>Total</u>
Governmental Activities:							
General Government	\$ 292,239	\$ 65,133	\$ -	\$ -	\$ (227,106)	-	\$ (227,106)
Public Safety	55,021	-	10,372	-	(44,649)	-	(44,649)
Transportation	99,915	-	-	-	(99,915)	-	(99,915)
Culture/Recreation	320,246	26,764	-	-	(293,482)	-	(293,482)
Interest on Long-Term Debt	8,803	-	-	-	(8,803)	-	(8,803)
Total governmental activities	<u>776,224</u>	<u>91,897</u>	<u>10,372</u>	<u>-</u>	<u>(673,955)</u>	<u>-</u>	<u>(673,955)</u>
Business-type Activities:							
Water & Sewer	<u>694,625</u>	<u>434,370</u>	<u>-</u>	<u>503,019</u>	<u>-</u>	<u>242,764</u>	<u>242,764</u>
Total primary government	<u>\$ 1,470,849</u>	<u>\$ 526,267</u>	<u>\$ 10,372</u>	<u>\$ 503,019</u>	<u>(673,955)</u>	<u>242,764</u>	<u>(431,191)</u>
General Revenues:							
Taxes:							
Property taxes, levied for general purposes					77,198	-	77,198
Taxes - Other					143,719	-	143,719
Miscellaneous					<u>95,308</u>	<u>-</u>	<u>95,308</u>
Total General Revenues and Transfers					<u>316,225</u>	<u>-</u>	<u>316,225</u>
Change in Net Position					<u>(357,730)</u>	<u>242,764</u>	<u>(114,966)</u>
Net Position - beginning					<u>8,780,418</u>	<u>10,308,932</u>	<u>19,089,350</u>
Net Position - ending					<u>\$ 8,422,688</u>	<u>\$ 10,551,696</u>	<u>\$ 18,974,384</u>

The notes to the financial statements are an integral part of this statement.

City of Vernon, Florida
 Balance Sheet
 Governmental Funds
 September 30, 2018

	General Fund	City Hall Fund	Total Governmental Funds
ASSETS			
Cash	\$ 70,026	\$ 40,292	\$ 110,318
Due from other Governments	20,751	-	20,751
Due from other Funds	149,841	535	150,376
Total Assets	<u>\$ 240,618</u>	<u>\$ 40,827</u>	<u>\$ 281,445</u>
 LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts Payable and Accrued Expenses	\$ 5,119	\$ 195	\$ 5,314
Due to Other Funds	<u>6,412</u>	<u>-</u>	<u>6,412</u>
Total Liabilities	<u>11,531</u>	<u>195</u>	<u>11,726</u>
 Fund Balances:			
Restricted For:			
Unassigned	<u>229,087</u>	<u>40,632</u>	<u>269,719</u>
Total Fund Balances	<u>229,087</u>	<u>40,632</u>	<u>269,719</u>
Total Liabilities & Fund Balances	<u>\$ 240,618</u>	<u>\$ 40,827</u>	<u>\$ 281,445</u>

The notes to the financial statements are an integral part of this statement.

City of Vernon, Florida
Reconciliation of Balance Sheet
To the Statement of Net Position
September 30, 2018

Total Fund Balances - Total Governmental Fund	\$ 269,719
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	8,365,386
Some liabilities, including bonds payable, loans payable, and net pension obligations are not due and payable in the current period and, therefore, are not reported in the funds.	(161,031)
Some liabilities, including net pension obligations, are not due and payable in the current period and, therefore, are not reported in the funds.	(58,316)
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.	
Deferred outflows of resources related to pensions	23,019
Deferred inflows of resources related to pensions	<u>(16,089)</u>
Total net position	<u>\$ 8,422,688</u>

The notes to the financial statements are an integral part of this statement.

City of Vernon, Florida
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ending September 30, 2018

	General Fund	City Hall Fund	Total Governmental Funds
REVENUES			
Taxes	\$ 220,917	\$ -	\$ 220,917
Permits, Fees and Licenses	57,080	-	57,080
Intergovernmental Revenues	60,438	-	60,438
Charges for Services	26,967	7,800	34,767
Miscellaneous Revenues	<u>45,292</u>	<u>-</u>	<u>45,292</u>
Total Revenues	<u>410,694</u>	<u>7,800</u>	<u>418,494</u>
 EXPENDITURES			
Current:			
General Government	161,411	12,380	173,791
Public Safety	19,060	-	19,060
Transportation	94,611	-	94,611
Culture/Recreation	63,509	-	63,509
Debt Service:			
Principal	18,812	-	18,812
Interest	8,804	-	8,804
Capital Outlay	<u>3,249</u>	<u>-</u>	<u>3,249</u>
Total Expenditures	<u>369,456</u>	<u>12,380</u>	<u>381,836</u>
 Excess (deficiency) of revenues over expenditures	 <u>41,238</u>	 <u>(4,580)</u>	 <u>36,658</u>
 Net Change in Fund Balances	 <u>41,238</u>	 <u>(4,580)</u>	 <u>36,658</u>
 Fund Balances - beginning	 <u>187,849</u>	 <u>45,212</u>	 <u>233,061</u>
Fund Balances - ending	<u>\$ 229,087</u>	<u>\$ 40,632</u>	<u>\$ 269,719</u>

The notes to the financial statements are an integral part of this statement.

City of Vernon, Florida
 Reconciliation of the Statement of Revenues,
 Expenditures, and Changes in Fund Balances of Governmental Funds
 To the Statement of Activities
 For the Year Ending September 30, 2018

Net change in fund balances - total governmental funds \$ 36,658

Amounts reported for governmental activities in the Statement
 of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement
 of activities the cost of those assets is allocated over their estimated useful lives and
 reported as depreciation expense. This is the amount by which depreciation \$295,637
 exceeded capital outlay \$0. in the current period. (295,637)

Governmental funds do not report disposals of capital assets. However, in the statement
 of activities disposal of assets net of its associated accumulated depreciation
 is reported. This is the amounts disposals \$13,740 exceeded accumulated
 depreciation \$10,994. (2,746)

Debt proceeds provide current financial resources to governmental funds, but issuing
 debt increase long-term liabilities in the statement of net position. Repayment of debt
 principal is an expenditure in the governmental funds, but the repayment reduces
 long-term liabilities in the statement of net position. This is the amount by which
 repayments \$18,812 exceeded proceeds \$0. 18,812

Governmental funds report pensions contributions as expenditures. However, in the
 statement of Activities, the cost of pension benefits earned are reported as pension
 expense. This is the amount of pension expense \$ 942 plus the
 reclassification of contribution paid subsequent to measurement date \$1,023. 1,167

Change in net position of governmental activities \$ (241,746)

The notes to the financial statements are an integral part of this statement.

City of Vernon, Florida
Statement of Net Position – Proprietary Fund
September 30, 2018

	<u>Water & Sewer</u>
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 85,948
Accounts Receivable	<u>35,084</u>
Total Current Assets	<u>121,032</u>
Noncurrent Assets:	
Restricted Assets (Cash and Cash Equivalents)	36,227
Due From Other Funds	5,877
Capital Assets:	
Land and Construction in Process	86,988
Improvements Other than Buildings	14,667,685
Machinery and Equipment	64,410
Less Accumulated Depreciation	(3,414,079)
Total Noncurrent Assets	<u>11,447,108</u>
Total Assets	<u>11,568,140</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Outflows Related to Pension	<u>21,249</u>
LIABILITIES	
Current Liabilities:	
Bonds and Notes Payable	58,631
Accounts Payable and Accrued Expenses	<u>38,892</u>
Total Current Liabilities	<u>97,523</u>
Noncurrent Liabilities:	
Customer Deposits	36,743
Bonds and Notes Payable after One Year	684,883
Net Pension Liability	53,852
Due To Other Funds	149,841
Total Noncurrent Liabilities	<u>925,319</u>
Total Liabilities	<u>1,022,842</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred Inflows Related to Pension	<u>14,851</u>
NET POSITION	
Invested in Capital Assets, Net of Related Debt	10,661,490
Restricted:	
Other Purposes	36,227
Unrestricted	<u>(146,021)</u>
Total Net Position	<u>\$10,551,696</u>

The notes to the financial statements are an integral part of this statement.

City of Vernon, Florida
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Fund
For the Year Ending September 30, 2018

	Water & <u>Sewer</u>
OPERATING REVENUES:	
Charges for Services	\$ 434,370
Total Operating Revenue	<u>434,370</u>
OPERATING EXPENSES:	
Salaries and Benefits	57,765
Legal and Professional	34,566
Insurance	47,720
Utility Service	121,128
Repairs and Maintenance	36,471
Operating Supplies and Miscellaneous	112,982
Depreciation and amortization	<u>272,403</u>
Total Operating Expenditures	<u>683,035</u>
Operating Loss	<u>(248,665)</u>
NONOPERATING REVENUES(EXPENSES)	
Interest Expense	<u>(11,590)</u>
Total Nonoperating Revenue (Expenses)	<u>(11,590)</u>
Income (loss) before contributions and transfers	(260,255)
Contributed Capital	<u>503,019</u>
Change in net position	<u>242,764</u>
NET POSITION, BEGINNING OF YEAR	<u>10,308,932</u>
NET POSITION, END OF YEAR	<u><u>\$ 10,551,696</u></u>

The notes to the financial statements are an integral part of this statement

City of Vernon, Florida
Statement of Cash Flows – Proprietary Fund
For the Year Ending September 30, 2018

	<u>Water & Sewer</u>
Cash Flows from Operating Activities:	
Receipts from Customers	\$ 441,452
Payments to Suppliers	(347,518)
Payments to Employees	<u>(58,821)</u>
Net Cash used in Operating Activities	<u>35,113</u>
 Cash Flows from Noncapital Financing Activities:	
Loans from other funds	<u>49,443</u>
Net Cash used in noncapital financing activities:	<u>49,443</u>
 Cash Flows from Capital and Related Financing Activities:	
Capital Contributions	503,019
Purchases of capital assets	(524,623)
Proceeds from capital debt	7,551
Interest paid on capital debt	(11,590)
Principal paid on capital debt	<u>(55,139)</u>
Net Cash Provided by Capital and Related Financing Activities	<u>(80,782)</u>
 Net Increase in Cash and Cash Equivalents	 3,774
 Cash and Cash Equivalents, beginning of year	 <u>118,401</u>
Cash and Cash Equivalents, end of year	<u>\$ 122,175</u>
 Reconciliation of Operating Loss to Net Cash Used in Operating Activities	
Operating Loss	\$(248,665)
Adjustments to Reconcile Operating Loss to Net Cash Used in Operating Activities:	
Depreciation	272,403
Pension Expense	48
Change in Assets and Liabilities:	
Deferred Outflows - Contributions After the Measurement Date	(1,104)
Customer Deposits	4,250
Accounts Receivable	2,832
Accounts Payable	<u>5,349</u>
Net Cash used in Operating Activities	<u>\$ 35,113</u>

The notes to the financial statements are an integral part of this statement

NOTES TO FINANCIAL STATEMENTS

City of Vernon, Florida
Notes to Financial Statements
September 30, 2018

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Introduction

The financial statements of the City of Vernon, Florida have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) applicable to state and local governments. The Governmental Accounting Standards Board (“GASB”) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting and reporting policies and practices used by the City are described below.

Reporting Entity

The City of Vernon, Florida was incorporated under Chapter 11778 (No. 443) Laws of Florida, Extraordinary Legislative Session in 1925. The City operates under a Mayor-Council form of Government and provides such services as are allowed under Florida law, including public safety (fire), culture, recreation, streets, water and sewer utilities and general administrative services.

Government-wide Financial Statements

The government-wide financial statements include the statement of net position and the statement of activities. These statements report financial information for the City of Vernon, Florida, as a whole excluding fiduciary activities. Individual funds are not displayed but the statements distinguish governmental activities, generally supported by taxes and City general revenues, from business-type activities, generally financed in whole or in part with fees charged to external customers.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees, fines and forfeitures, and other charges to users of the City’s services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets and include fees to developers. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

Fund Financial Statements

Fund financial statements are provided for the governmental and proprietary funds. Non-major governmental funds are reported in separate columns.

City of Vernon, Florida
Notes to Financial Statements
September 30, 2018

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES – Continued

Basis of Accounting

The government-wide statements and fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). However, internal eliminations do not include utility services provided to City departments. Reimbursements are reported as reductions to expenses. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax revenues are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The City considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for debt principal and interest which are recorded as expenditures in the year due.

Major revenue sources susceptible to accrual include: sales and use taxes, property taxes, intergovernmental revenues, and investment income. In general, other revenues are recognized when cash is received.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as needed.

Fund Types and Major Funds

Governmental Funds

The City reports the following major governmental funds:

General Fund – reports as the primary fund of the City. This fund is used to account for all financial resources not reported in other funds.

City Hall Fund – This account is used to report activity with funds set aside for expenses of City Hall Property.

Proprietary Funds

The City reports the following major proprietary funds:

Water/Sewer – accounts for the revenues and expenses, capital assets and debt for the utility department of the City.

City of Vernon, Florida
Notes to Financial Statements
September 30, 2018

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES – Continued

Proprietary Funds - Continued

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for the proprietary funds include the cost of personnel and contractual services, supplies and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenues and expenses.

Cash and Investments

Amounts shown as cash include cash in checking accounts, cash on hand, cash in savings accounts and certificates of deposits.

Capital Assets and Depreciation

The City's property, plant, equipment, and infrastructure of the business-type activities and governmental activities with useful lives of more than one year are stated at historical cost or estimated historical cost and comprehensively reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Donated fixed assets are recorded at their estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method.

Estimated useful lives, in years, for depreciable assets are as follows:

Buildings	33-50
Improvements, other than buildings	2-50
Furniture, machinery, and equipment	3-30

The City conducted asset inventories in the current year in order to report property, plant, equipment and infrastructure of the governmental activities that in previous years were unavailable.

Property Taxes

The City votes a local millage rate for the assessment of ad valorem property taxes. This rate was set at 4.8282 mills for the October 2017 through September 2018 budget year. The Washington County Property Appraiser's office includes this assessment with countywide property tax assessments. The Washington County Tax Collector is charged with collecting these revenues and distributing to the City its share of these collections.

City of Vernon, Florida
Notes to Financial Statements
September 30, 2018

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES – Continued

Property Taxes - continued

All taxes are generally due and payable on November 1 of each year. Discounts are allowed of four, three, two and one percent for payments in November through February, respectively. Delinquent taxes at April 1 are converted, by the County, into Tax Certificates. Therefore, there are no significant taxes receivable at year-end.

Long-Term Debt

In the government-wide financial statements, outstanding debt is reported as liabilities.

The governmental fund financial statements recognize the proceeds of debt as other financial sources of the current period.

Deferred Outflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense or expenditure) until then. The deferred outflows of resources reported in the City's Statement of Net Position represent pension related balances for changes in actuarial assumptions, changes in the proportion and differences between the City's contributions and proportionate share of contributions, and the City's contributions subsequent to the measurement date, relating to the Florida Retirement System (FRS) Pension Plan. These amounts will be recognized as increases in pension expense in future years.

Deferred Inflows of Resources

Deferred inflows of resources represent acquisition of resources that applies to future reporting periods and will not be recognized as an inflow of resource (revenue) until then. The City reports deferred inflows in the Statement of Net Position for pension related balances for the difference between expected and actual economic experience, the net difference between projected and actual earnings of FRS Pension Investments, and changes in the proportion and differences between the City's contribution and proportional share of contributions relating to the FRS Pension Plan. These amounts will be recognized as reductions in pension expense in future years.

Pensions

In the government-wide and proprietary funds statement of net position, liabilities are recognized for the City's proportionate share of the pension plan's net pension liability. For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the net position of the Florida Retirement System (FRS) defined benefit plan and additions to/deductions from FRS's net position has been determined on the same basis as they are reported by the FRS plans. For this purpose, plan contributions are recognized as of paid dates and benefit payments and refunds of employee contributions are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

City of Vernon, Florida
Notes to Financial Statements
September 30, 2018

Fund Equity

The following fund balance classifications describe the relative strength of the spending constraints placed on the purpose for which resources can be used:

- Nonspendable fund balance – amounts that are not in a spendable form (such as inventory) or are required to be maintained intact;
- Restricted fund balance – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation;
- Committed fund balance – amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint;
- Assigned fund balance – amounts the government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority;
- Unassigned fund balance – amounts that are available for any purpose; positive amounts are reported on in the general fund.

City Council establishes (and modified or rescinds) fund balance commitments by passage of an ordinance or resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as for special incentives). At September 30, 2018 the City of Vernon, Florida, did not have any committed fund balances. Assigned fund balance is established by City council through adoption of amendment of the budget as intended for specific purpose (such as the purchase of fixed assets, construction, debt service, or for other purposes).

Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). When fund balances resources are available for a specific purpose in more than one classification, it is the City's Policy to use the most restrictive funds first in the following order: restricted, committed, assigned, and unassigned as they are needed.

Risk Management and Insurance

The City insures itself against losses from casualty, accident and dishonesty by purchasing municipal insurance through the Florida League of Cities, Inc. The City believes the level of insurance purchased is adequate to protect against material loss. No significant changes in coverage or claims have been made in the last year.

City of Vernon, Florida
Notes to Financial Statements
September 30, 2018

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES – Continued

Estimates

The preparation of financial statements in conformity with general accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Inventory

The cost of materials and supplies on hand are not material to the financial statements, and the City has therefore, chosen to report these items and expenditures/expenses at the time of purchase.

Budgets and Budgetary Accounting

The City uses the following procedures in establishing the budgetary data reflected in the financial statements.

1. The City adopts its budget in accordance with Chapter 166.241 Florida Statutes.
 - a. The City follows an internal hearing process to set the proposed tentative budget and millage.
 - b. Public hearings are then held to adopt both a tentative budget and millage, and a final budget and millage, in accordance with Chapter 166.241, Florida Statutes.
 - c. Budget amendments are made in accordance with applicable Florida Statutes.
2. Budgets are reported for the General Fund, and major Special Revenue Funds.
3. All budgets are adopted in accordance with Generally Accepted Accounting Principles.
4. Florida Statutes do not require adoption of budgets for Debt Service Funds
5. Level of Control – Expenditures may not exceed appropriations and are controlled in the following manner:
 - a. The budget is controlled according to Chapter 166.241, Florida Statutes, at the total fund level.
 - b. Any budget amendments or transfer of funds must be approved by the City Council.

City of Vernon, Florida
Notes to Financial Statements
September 30, 2018

NOTE 2 – CASH AND INVESTMENTS

The City, in accordance with state and local regulations, deposits its cash funds in approved financial institutions. The financial institutions are required to pledge U.S. Government Securities as collateral for such funds. All deposits are in checking accounts, bank money market accounts, or certificates of deposit. The City has not formally adopted deposit and investment policies that limit the government's allowable deposits or investments and address the specific types of risk to which the City might be exposed.

Custodial Credit Risk is the risk that in the event of a bank failure, the government's deposits (in excess of FDIC insurance) may not be returned. At September 30, 2018 the City's bank balance, in two financial institutions, of \$271,557 was insured by the FDIC. The carrying value on the financial statements was \$232,493.

NOTE 3 – RECEIVABLES

The City reported receivables as follows:

General Fund	
Due from Other Governments	<u>\$ 20,751</u>
Enterprise Fund	
Water Fees, Refuse Fees and Sewer Fees	<u>\$ 35,084</u>

No allowances for uncollectible accounts are considered necessary.

NOTE 4 – INTERNAL BALANCES

At September 30, 2018, the City had interfund receivables and payables that resulted from various interfund transactions as follows:

	<u>Receivable</u>	<u>Payable</u>	<u>Purpose</u>
General Fund			
Receivable from Water & Sewer Fund	\$ 149,841	\$ -	Operations
Payable to Water & Sewer Fund	-	5,877	Operations
Payable to City Hall Fund		535	Operations
City Hall Fund			
Receivable from General fund	535	-	Operations
Water & Sewer Fund			
Receivable from General Fund	5,877	-	Operations
Payable to General Fund	-	149,841	Operations
	<u>\$ 156,253</u>	<u>\$ 156,253</u>	

City of Vernon, Florida
Notes to Financial Statements
September 30, 2018

NOTE 6 – RESTRICTED ASSETS

Certain Enterprise Fund assets are restricted for debt service (Water Fund) and Customer Deposits. Restricted net assets includes the excess of assets over certain liabilities restricted for the debt service on revenue bonds, and deposits received for utility services. There are no debt service restricted assets for the current year.

Water Fund

Cash - Customer Deposits	\$ <u>36,227</u>
Total Restricted Assets	\$ <u><u>36,227</u></u>

NOTE 7 – CAPITAL ASSETS

Governmental asset activity for the year ending September 30, 2018 was as follows:

	Beginning			Ending
	<u>Balance</u>	<u>Increases</u>	<u>Deletions</u>	<u>Balances</u>
Governmental Activities:				
Capital assets not being depreciated				
Land and improvements	\$ <u>249,112</u>	\$ -	\$ -	\$ <u>249,112</u>
Total capital assets not being depreciated	<u>249,112</u>	-	-	<u>249,112</u>
Capital assets, being depreciated:				
Buildings and Improvements	11,383,004	-	13,740	11,369,264
Equipment	<u>732,965</u>	-	-	<u>732,965</u>
Total capital assets being depreciated:	<u>12,115,969</u>	-	<u>13,740</u>	<u>12,102,229</u>
Building and improvements	(2,957,476)	(261,486)	(10,992)	(3,207,970)
Equipment	<u>(627,850)</u>	<u>(34,151)</u>	-	<u>(662,001)</u>
Total accumulated depreciation	<u>(3,585,326)</u>	<u>(295,637)</u>	<u>(10,992)</u>	<u>(3,869,971)</u>
Total Governmental Capital Assets	<u>\$ 8,779,755</u>	<u>\$ (295,637)</u>	<u>\$ 2,748</u>	<u>\$ 8,481,370</u>

City of Vernon, Florida
Notes to Financial Statements
September 30, 2018

NOTE 7 – CAPITAL ASSETS

Depreciation expense was charged to governmental activities as follows:

General government	\$ 119,616
Public Safety	\$ 35,857
Transportation	4,247
Culture/Recreation	<u>135,917</u>
Total governmental depreciation expense	<u>\$ 295,637</u>

Business Type asset activity for the year ending September 30, 2018 was as follows:

	<u>Balance</u>	<u>Increases</u>	<u>Deletions</u>	<u>Balances</u>
Business Type Activities:				
Capital assets not being depreciated				
Land and improvements	\$ 86,988	\$ -	\$ -	\$ 86,988
Total capital assest not being depreciated	<u>86,988</u>	<u>-</u>	<u>-</u>	<u>86,988</u>
Capital assets, being depreciated:				
Buildings and improvements	14,143,062	524,623	-	14,667,685
Equipment	<u>64,410</u>	<u>-</u>	<u>-</u>	<u>64,410</u>
Total capital assets being depreciated:	<u>14,207,472</u>	<u>524,623</u>	<u>-</u>	<u>14,732,095</u>
Less accumulated depreciation for:				
Building and Improvements	(3,077,266)	(272,403)	-	(3,349,669)
Equipment	<u>(64,410)</u>	<u>-</u>	<u>-</u>	<u>(64,410)</u>
Total accumulated depreciation	<u>(3,141,676)</u>	<u>(272,403)</u>	<u>-</u>	<u>(3,414,079)</u>
Tota Business-Type Capital Assets	<u>\$ 11,152,784</u>	<u>\$ 252,220</u>	<u>\$ -</u>	<u>\$ 11,405,004</u>

City of Vernon, Florida
Notes to Financial Statements
September 30, 2018

NOTE 8 - LONG TERM DEBT

GOVERNMENTAL FUND

Revenue Bond:

\$125,500 Capital Improvement Revenue Bond,
payable in annual installments at 5%.

Secured by pledged revenue - Local Government

Infrastructure Surtax Revenue. \$ 76,400

Lease Purchase:

\$197,898 payable in quarterly payment of \$4,845
at 5.30%, secured by Pierce Contender 2 Door Dry Side Tanker.

The following is a schedule of future minimum lease
payments under capital leases, together with the net
present value of the minimum lease payments as of
September 30, 2018:

2019	\$ 19,380	
2020	19,380	
2021	19,380	
2022	19,380	
2023	<u>19,380</u>	
Total	96,900	
Less amount Representing Interest	<u>(12,269)</u>	
Present Value of Minimum Lease Payments		<u>84,631</u>
 Total Governmental Type Activities Obligations		 <u>\$ 161,031</u>

City of Vernon, Florida
Notes to Financial Statements
September 30, 2018

NOTE 8 - LONG TERM DEBT – Continued

Debt Service requirements to maturity on the City’s revenue bond and lease purchase at September 30, 2018, are as follows:

2019	\$ 19,792	\$ 9,008	\$ 27,820
2020	20,913	8,008	27,800
2021	21,980	6,956	27,869
2022	23,192	5,846	27,826
2023	24,354	4,678	27,870
2024-2028	32,600	11,776	61,531
2029-2033	18,200	2,715	28,115
	<u>\$ 161,031</u>	<u>\$ 48,987</u>	<u>\$ 228,831</u>

ENTERPRISE FUND

DEP Note Payable:

\$3,057,193 Clean Water State Revolving Fund Loan payable in 40 semi-annual payments at 1.87% - secured by pledged revenues - Water and Sewer operations. \$ 349,660

DEP Note Payable:

\$391,868 Wastewater Treatment Facility Construction Loan payable in semiannual payments at .915% - secured by pledged revenues - Water & Sewer operations. 96,580

DEP Note Payable:

\$586,846 Wastewater Treatment Facility Construction Loan payable in semiannual payments at 1.40% - secured by pledged revenues - Water & Sewer operations. 297,274

Total Business Type Activities Obligation \$ 743,514

City of Vernon, Florida
Notes to Financial Statements
September 30, 2018

NOTE 8 - LONG TERM DEBT – Continued

The following is the debt service requirements for the business type activities note payable and line of credit at September 30, 2018.

<u>Due Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2019	\$ 58,631	\$ 8,168	\$ 66,799
2020	59,220	7,580	66,800
2021	59,814	6,985	66,799
2022	60,415	6,384	66,799
2023	61,022	5,778	66,800
2024-2028	208,326	20,437	228,763
2029-2033	81,765	13,454	95,219
2034-2038	54,697	9,102	63,799
2039-2043	58,648	5,150	63,798
2044-2047	40,976	1,084	42,060
	<u>\$ 743,514</u>	<u>\$ 84,122</u>	<u>\$ 827,636</u>

City of Vernon, Florida
Notes to Financial Statements
September 30, 2018

NOTE 8 - LONG TERM DEBT – Continued

Long-term liability activity for the year ended September 30, 2018 was as follows:

	Amounts				
	Beginning			Ending	Due Within
	Balance	Additions	Reductions	Balances	One Year
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
GOVERNMENTAL ACTIVITIES					
Revenue Bond	\$ 80,800	\$ -	\$ 4,400	\$ 76,400	\$ 4,600
Lease Purchases	<u>99,044</u>	<u>-</u>	<u>14,413</u>	<u>84,631</u>	<u>15,192</u>
Governmental activities long-term liabilities	<u>\$ 179,844</u>	<u>\$ -</u>	<u>\$ 18,813</u>	<u>\$ 161,031</u>	<u>\$ 19,792</u>
BUSINESS TYPE ACTIVITIES					
Notes Payable	<u>\$ 791,102</u>	<u>\$ 7,551</u>	<u>\$ 55,139</u>	<u>\$ 743,514</u>	<u>\$ 58,631</u>
long term liabilities	<u>\$ 791,102</u>	<u>\$ 7,551</u>	<u>\$ 55,139</u>	<u>\$ 743,514</u>	<u>\$ 58,631</u>

Payments on the City's governmental activities are made by the debt service funds. Compensated absences have not been recorded in the governmental activities and business type activities because it is not material to the financial statements.

NOTE 9 – DEBT SERVICE REQUIREMENTS

General Government Fund Type – Capital Improvement Revenue Bonds – Fire Station

The Bond Ordinance adopted November 22, 2000, requires the establishment of certain “trust funds” to ensure repayment of the Capital Improvement Revenue Bonds – Fire Station. A summary of these requirements is as follows:

- A. All cash income derived from the ownership and operation of the project shall be deposited into the “Revenue Fund” on or before the 15th day of each month. Transfers are to be made to certain accounts.
- B. The “Sinking Fund” is to be used exclusively for the purpose of paying principal and interest on the bonds and is to be funded by transferring each month from the “Revenue Fund” one-twelfth of the next annual interest and principal requirements.
- C. The “Reserve Account” is to be established by transferring each month from the “Revenue Fund” the sum of one-twelfth of one-tenth of the Maximum Bond Service Requirement until such time as the funds and investments therein shall equal the Maximum Bond Service Requirements. The funds in this account shall be used only for (1) paying the principal of and interest on the bonds in the event that the moneys in the “Sinking Fund” shall ever be insufficient to meet such payments, (2) paying the cost of repairing or replacing any damage to the project which shall be caused by an unforeseen catastrophe, (3) construction improvements, and (4) repaying governmental balances.

DEP State Revolving Loan Agreements

The City is required to deposit monthly at least one-sixth of the semiannual loan payments in the loan debt service account per the DEP State Revolving Loan Agreement. No reserve funding is required.

NOTE 10 – PENSION PLANS

General Information about the Pension Plan

Plan Description

The City of Vernon participates in the Florida Retirement System (FRS), a single retirement system administered by the Florida Department of Management Services, Division of Retirement, and consists of two cost-sharing, multiple-employer defined benefit plans and other nonintegrated programs. The plans provide retirement, disability or death benefits to retirees or their designated beneficiaries. Chapter 121, Florida Statutes, establishes the authority for benefit provisions. Changes to the law can only occur through an act of the Florida Legislature. A comprehensive annual financial report of the FRS, which includes its financial statements, required supplementary information, actuarial report and other relevant information, is available from the Florida Department of Management Services’ website (www.dms.myflorida.com).

NOTE 10 – PENSION PLANS – Continued

The Florida Retirement System (FRS) Pension plan is a cost-sharing, multiple-employer qualified defined benefit pension plan with a Deferred Retirement Option Program (DROP) available for eligible employees. The FRS was established and is administered in accordance with Chapter 121, Florida Statutes. Retirees receive a lifetime pension benefit with joint and survivor payment options. FRS membership is compulsory for employees filling regularly established positions in a state agency, county agency, state university, state community college, or district school board, unless restricted from FRS membership under Section 121.053 and 121.122, Florida Statutes, or allowed to participate in a defined contribution plan in lieu of FRS membership. Participation by cities, municipalities, special districts, charter schools and metropolitan planning organizations is optional.

The Retiree Health Insurance Subsidy (HIS) Program is a cost-sharing, multiple employer defined benefit pension plan established and administered in accordance with Section 112.363, Florida Statutes. The benefit is a monthly payment to assist retirees of the state-administered retirement system in paying their health insurance costs. To be eligible to receive a HIS benefit, a retiree under one of the state administered retirement systems must provide proof of eligible health insurance coverage, which can include Medicare.

Benefits

For employees initially enrolled before July 1, 2011, normal retirement benefits are available to regular class employees who retire with at least six years of service and have reached age 62; the age after 62 the member becomes vested; or with 30 years of service at any age. Special risk class employees may receive normal retirement benefits with at least six years of special risk service after reaching age 55; to age after 55 the member becomes vested; after 25 years of service, consisting of both special risk service and up to four year of wartime military service, and age 52; after 25 years special risk service regardless of age; or with 30 years any creditable service regardless of age.

For employees enrolled after July 1, 2011, regular class employees receive benefits with eight years of service and age 65 or 33 years of service, regardless of age. Special risk class employees are vested with eight years of special risk service and age 60; 30 years of service, consisting of both special risk service and up to four years of wartime military service, and age 57; 30 years of special risk service, regardless of age; or 33 years of any creditable service, regardless of age.

Service retirement benefits are computed on the basis of age and/or years of service, average final compensation, and service credit. Credit for each year of service is expressed as a percentage of the average final compensation. For employees initially enrolled prior to July 1, 2011, the average final compensation is the average of the five highest fiscal years' earnings; for employees initially enrolled on or after July 1, 2011, the average final compensation is the average of the eight highest fiscal years' earnings. The total percentage value of the benefit received is determined by calculating the total value of all service, which is based on the retirement plan and/or class to which the employee belonged when the service credit was earned.

City of Vernon, Florida
Notes to Financial Statements
September 30, 2018

NOTE 10 – PENSION PLANS – Continued

The System provides for several benefit options, disability benefits and survivor benefits.

The cost-of-living adjustment for retirements effective before August 1, 2011 is 3% per year. The cost-of-living adjustment formula for retirees with an effective retirement date on or after August 1, 2011, will be the sum of the pre-July 2011 service credit divided by the total service credit earned multiplied by 3 percent. Plan members initially enrolled on or after July 1, 2011, will not have a cost-of-living adjustment after retirement.

Contributions

The City is required to contribute at an actuarially determined rate. The contributions requirements of plan members and the City are established and may be amended by the Florida Legislature.

Applicable rates effective July 1, 2016 were:

Class	Employee Contribution Rate	Employer Contribution Rate	Total Contribution Rate
Regular	3.00%	7.92%	10.92%
Special Risk	3.00%	23.27%	26.27%
DROP	N/A	13.26%	13.26%

The above rates include a 1.66% health insurance subsidy contribution.

Total payroll for the City’s employees covered by the System was \$161,258 for the year ended September 30, 2018.

The City’s contributions for the year ended September 30, 2018 were \$6,418 to the FRS and \$2,391 to the HIS.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of resources Related to Pensions

At September 30, 2018, the City reported a liability for its proportionate shares of the net pension liability. The net pension liability for the FRS Pension Plan and HIS program was measured as of June 30, 2018 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation dated June 30, 2018. The City’s Proportions of the net pension liabilities was based on the City’s share of contributions to the pension plans relative to the contributions of all participating entities, actuarially determined.

City of Vernon, Florida
Notes to Financial Statements
September 30, 2018

NOTE 10 – PENSION PLANS – Continued

	<u>FRS</u>	<u>HIS</u>	<u>Total</u>
Net pension liability at September 30, 2018	\$ 66,715	\$ 45,453	\$ 112,168
Proportion at:			
June 30, 2018	0.000221493%	0.000429444%	
June 30, 2017	0.000221193%	0.000351241%	
Pension expense (benefit), year ended			
September 30, 2017	\$ 20	\$ 32	\$ 52

At September 30, 2018 the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>FRS</u>		<u>HIS</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 5,652	\$ (205)	\$ 696	\$ (77)
Changes of assumption	21,799	-	5,055	(4,806)
Net difference between projected and actual earnings on pension plan investments	-	(5,155)	27	-
Changes in proportion and differences between City contributions and proportionate share of contributions	45	(13,047)	8,695	(7,650)
City contributions subsequent to the measurement date	1,721	-	578	-
Total	<u>\$ 29,217</u>	<u>\$ (18,407)</u>	<u>\$ 15,051</u>	<u>\$ (12,533)</u>

City of Vernon, Florida
Notes to Financial Statements
September 30, 2018

NOTE 10 – PENSION PLANS – Continued

Deferred outflows of resources related to pensions included \$ 1,615 for FRS and \$516 for HIS resulting from contributions subsequent to the measurement date. This amount will be recognized as a reduction of the net pension liability in the year ended September 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended September 30,	FRS	HIS
2019	\$ 3,521	\$ 1,355
2020	2,403	1,350
2021	335	946
2022	1,600	212
2023	1,070	(1,318)
Thereafter	159	(604)

Actuarial Methods and Assumptions

The Florida Retirement System (FRS) Actuarial Assumption Conference is responsible for setting the assumptions used in the funding valuations of the defined benefit pension plan pursuant to section 216.136(10), Florida Statutes. The division determines the assumptions in the valuations for GASB 67 reporting purposes. The FRS Pension Plan’s GASB 67 valuation is performed annually. The HIS Program has a valuation performed biennially that is updated for GASB reporting in the year a valuation is not performed. The most recent experience study for the FRS Pension Plan was completed in 2014 for the period July 1, 2008, through June 30, 2013. Because the HIS Program is funded on a pay-as-you-go basis, no experience study has been completed for that program. The actuarial assumptions that determined the total pension liability for the HIS Program was based on certain results of the most recent experience study for the FRS Pension Plan.

The total pension liability for each cost-sharing defined benefit plan was determined using the individual entry age actuarial cost method. Inflation increases for both plan assumed at 2.60%. Payroll growth, including inflation, for both plans is assumed at 3.25%. Both the discount rate and the long-term expected rate of return used for FRS Pension Plan investment is 7.00%. The plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the total pension liability is equal to the long-term expected rate of return.

Because the HIS Program used a pay-as-you-go funding structure, a municipal bond rate of 3.87% was used to determine the total pension liability for the program (Bond Buyer General Obligation 20-Bond Municipal Bond Index). Mortality assumptions for both plans were based on the Generational RP-2000 was Projection Scale BB tables.

City of Vernon, Florida
Notes to Financial Statements
September 30, 2018

NOTE 10 – PENSION PLANS – Continued

The following changes in actuarial assumptions occurred in 2018:

- FRS: The long-term expected rate of return was decreased from 7.10% to 7.00%, and the active member mortality assumption was updated.
- HIS: The municipal rate used to determine the total pension liability increased from 3.58% to 3.87%.

The long-term expected rate of return assumption of 7.00% consists of two building block components: 1) a real (in excess of inflation) return of 4.40%, consistent with the currently articulated real return target in the current Florida State Board of Administration’s investment policy, developed using capital market assumptions calculated by Aon Hewitt Investment Consulting; and 2) a long-term average annual inflation assumption of 2.60% as adopted in October 2018 by the FRS Actuarial Assumption Conference. In the opinion of the FRS consulting actuary, Milliman, both components and the overall 7.00% return assumption was determined to be reasonable and appropriate per the Actuarial Standards of Practice. The 7.00% reported investment return assumption differs from the 7.40% investment return assumption chosen by the 2018 FRS Actuarial Assumption Conference for funding policy purposes, as allowable under governmental accounting and reporting standards. The table below summarizes the key assumptions of each of the asset classes in which the plan was invested at that time based on the long-term target allocation. Each asset class assumption is based on a consistent set of underlying assumptions, and includes an adjustment for the inflation assumptions. These assumptions are not based on historical return, but instead are based on a forward-looking capital market model.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Annual Arithmetic Return</u>	<u>Compound Annual (Geometric) Return</u>	<u>Standard Deviation</u>
Cash	1.0%	2.9%	2.9%	1.8%
Fixed income	18.0%	4.4%	4.3%	4.0%
Global equity	54.0%	7.6%	6.3%	17.0%
Real Estate	11.0%	6.6%	6.0%	11.3%
Private Equity	10.0%	10.7%	7.8%	26.5%
Strategic investments	6.0%	6.0%	5.7%	8.6%
Assumed Inflation – Mean			2.6%	1.9%

City of Vernon, Florida
Notes to Financial Statements
September 30, 2018

NOTE 10 – PENSION PLANS – Continued

Pension Liability Sensitivity

The following table demonstrates the sensitivity of the net pension liability to changes in the discount rate. The sensitivity analysis shows the impact to the City proportionate share of the net pension liability if the discount rate was 1% higher or 1% lower than the current discount rate:

	FRS			HIS		
	Current			Current		
	1% Decrease Discount Rate	1% Increase	Discount Rate	1% Decrease Discount Rate	1% Increase	Discount Rate
	<u>6.00%</u>	<u>7.00%</u>	<u>8.00%</u>	<u>2.87%</u>	<u>3.87%</u>	<u>4.87%</u>
City's proportinate share of net pension liability	\$121,757	\$66,715	\$20,999	\$51,768	\$45,453	\$40,189

Pension Plan Fiduciary Net Position

Detailed information about the FRS Plan's fiduciary net position is available in a separately-issued FRS Pension Plan and Other State-Administered Systems Comprehensive Annual Financial Report. The report may be obtained through the Florida Department of Management Services website: <http://www.dms.myflorida.com>.

REQUIRED SUPPLEMENTARY INFORMATION

Required Supplementary Information
City of Vernon, Florida
Budgetary Comparison Schedule – General Fund
For the Year Ended September 30, 2018

	Budgeted Amounts		Actual Amounts
	Original	Final	(GAAP Basis)
REVENUES			
Taxes	\$ 221,227	\$ 221,227	\$ 220,917
Licenses & Permits	103,000	103,000	57,080
Intergovernmental Revenues	1,665,057	1,665,057	60,438
Charges for Services	30,000	30,000	26,967
Miscellaneous Revenues	14,900	14,900	45,292
Total Revenues	2,034,184	2,034,184	410,694
EXPENDITURES			
Current:			
General Government	1,798,906	1,798,906	161,411
Public Safety	47,148	47,148	19,060
Transportation	108,136	108,136	94,611
Culture/Recreation	79,994	79,994	63,509
Debt Service:			
Principal	-	-	18,812
Interest	-	-	8,804
Capital Outlay	-	-	3,249
Total Expenditures	2,034,184	2,034,184	369,456
Excess (deficiency) of revenues over expenditures	-	-	41,238
Net Change in Fund Balances	-	-	41,238
Fund Balances - beginning	187,849	187,849	187,849
Fund Balances - ending	\$ 187,849	\$ 187,849	\$ 229,087

Note: This schedule is prepared on the modified accrual basis of accounting.

The notes to the financial statements are an integral part of this statement.

FLORIDA RETIREMENT SYSTEM AND HEALTH INSURANCE SUBSIDY PROGRAM
SUPPLEMENTAL INFORMATION

Schedule of the City of Vernon's Contributions
Florida Retirement System and Health Insurance Subsidy Program
Last 5 Fiscal Years*

FLORIDA RETIREMENT SYSTEM					
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
City's proportion of the Net Pension Liability	0.000221493%	0.000221193%	0.000228712%	0.000244002%	0.000366061%
City's proportionate share of Net Pension Liability	\$ 66,715	\$ 65,427	\$ 57,750	\$ 31,516	\$ 22,335
City's Covered Employee Payroll	\$ 161,258	\$ 151,364	\$ 110,797	\$ 100,969	\$ 112,050
City's proportionate share of Net Pension Liability as a percentage of its covered-employee payroll	41.37%	43.22%	52.12%	31.21%	19.93%
Plan Fiduciary Net Position as a percentage of the	84.26%	83.89%	84.88%	92.00%	96.09%

HEALTH INSURANCE SUBSIDY PROGRAM					
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
City's proportion of the Net Pension Liability	0.000429444%	0.000221193%	0.000324901%	0.000327885%	0.000405926%
City's proportionate share of Net Pension Liability	\$ 45,453	\$ 37,556	\$ 37,866	\$ 33,439	\$ 37,955
City's Covered Employee Payroll	\$ 161,258	\$ 151,364	\$ 110,797	\$ 100,969	\$ 112,050
City's proportionate share of Net Pension Liability as a percentage of its covered-employee payroll	28.19%	24.81%	34.18%	33.12%	33.87%
Total Pension Liability	2.15%	1.64%	0.97%	0.50%	0.99%

* The amounts presented for each fiscal year were determined as of 6/30.

Note: Information is required to be presented for 10 years. However, until a full 10-year trend is compiled, the City will present information for only those year for which the information is available.

Schedule of the City of Vernon's Contributions
Florida Retirement System and Health Insurance Subsidy Program
Last 5 Fiscal Years*

FLORIDA RETIREMENT SYSTEM					
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually Required Contribution	\$ 6,418	\$ 6,139	\$ 5,578	\$ 5,949	\$ 8,018
Contributions in Relation to the Contractually Required Contribution	(6,418)	(6,139)	(5,578)	(5,949)	(8,018)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
City's Covered-Employee Payroll	161,258	151,364	110,797	100,969	112,050
Contributions as a Percentage of Covered-Employee Payroll	3.98%	4.06%	5.03%	5.89%	7.16%

HEALTH INSURANCE SUBSIDY PROGRAM					
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually Required Contribution	\$ 2,391	\$ 2,022	\$ 1,665	\$ 1,253	\$ 1,391
Contributions in Relation to the Contractually Required Contribution	(2,391)	(2,022)	(1,665)	(1,253)	(1,391)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
City's Covered-Employee Payroll	161,258	151,364	110,797	100,969	112,050
Contributions as a Percentage of Covered-Employee Payroll	1.48%	1.34%	1.50%	1.24%	1.24%

* The amounts presented for each fiscal year were determined as of 6/30.

Note: Information is required to be presented for 10 years. However, until a full 10-year trend is compiled, the City will present information for only those years for which the information is available.

COMPLIANCE SECTION

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OWEN W. GRIMSLEY, C.P.A.

INDEPENDENT ACCOUNTANT'S REPORT ON COMPLIANCE WITH SECTION 218.415, FLORIDA STATUTES, *LOCAL GOVERNMENT INVESTMENT POLICIES*

Honorable Mayor and City Council Members
City of Vernon, Florida
Vernon, Florida 32462

We have examined the compliance of the City of Vernon, Florida with Section 218.415, Florida Statutes for the year ended September 30, 2018. Management is responsible for the City's compliance with those requirements. Our responsibility is to express an opinion on the City's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the City complied with Section 218.415, Florida Statutes in all material respects. An examination involves performing procedures to obtain evidence about whether the City complied with the specified requirements. The nature, timing, and extent of the procedures selected depend on our judgement, including an assessment of the risks of material noncompliance, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

Our examination does not provide a legal determination on the City's compliance with specified requirements.

In our opinion, the City of Vernon, Florida complied, in all material respects, with the requirements of Section 218.415, Florida Statutes for the year ended September 30, 2018.

June 16, 2020
Marianna, Florida

Grimsley & Associates, P.A.
Certified Public Accountants

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OWEN W. GRIMSLEY, C.P.A.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Honorable Mayor and City Council Members
City of Vernon, Florida
Vernon, Florida 32462

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audit contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Vernon, Florida, as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the City of Vernon, Florida's basic financial statements and have issued our report thereon dated June 16, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Vernon, Florida's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Vernon, Florida's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Vernon, Florida's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings as items 2003-02 and 2007-01 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Vernon, Florida's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings as items 2014-01 and 2014-02.

City of Vernon, Florida's Response to Findings

The City of Vernon, Florida's response to the findings identified in our audit is described in the accompanying schedule of findings. The City of Vernon, Florida's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Grimsley & Associates

Marianna, Florida
June 16, 2020

Grimsley and Associates, P.A.
Certified Public Accountants

SCHEDULE OF FINDINGS

City of Vernon, Florida
Schedule of Findings
For the Year Ended September 30, 2018

2003-02

Criteria – Custody of assets, record keeping and recording of assets should have adequate separation.

Condition – Due to the size of the organization, proper separation of duties may not be feasible.

Effect – Controls should be implemented to help compensate for these weaknesses.

Cause – This is a small one-person bookkeeping system.

Recommendation – Management should remain very active and involved in the day-to-day operations. It is essential that records be maintained current and up-to-date. Controls should be established to provide checks and balances.

Response – Segregation of duties will continue to be a problem due to the small size of the operation. The Mayor and City Council are very active in the affairs of the City and review information relative to the day-to-day activities.

2007-01

Criteria – An entity's system of internal control over financial reporting should include controls over the prevention, detection and correction of misstatements in the audited financial statements.

Condition – The City relies on the external auditor to assist with preparing and explaining financial statements in conformity with generally accepted accounting principles.

Effect – Since the auditor cannot be a part of an entity's system of internal accounting control, the City's system of internal accounting control over the financial reporting is not sufficient by itself to prevent, detect or correct misstatements in the audited financial statements.

Cause – The City has a small accounting staff necessitated by the overall small size of the entity. They do not consider it cost effective to develop and maintain a system of internal accounting control sufficient to prepare financial statements in accordance with generally accepted accounting principles, nor to maintain internal staff with sufficient knowledge to develop and maintain controls to prevent, detect or correct misstatements in audited financial statements.

Recommendation – The City should continue to consider the effects of the cost of developing and benefits of implementing such a system as compared with understanding that due to the size of their accounting department, they will continue to need external assistance with the preparation and understanding of financial statements in accordance with generally accepted accounting principles.

Response – Due to the small staff and limited funds the City Council is aware of the need to implement a system to develop and maintain controls. The office policy and procedure are undated as need to assure control. The council will review the policies and procedures and make necessary changes.

City of Vernon, Florida
Schedule of Findings
For the Year Ended September 30, 2018

2014-01

Criteria – The City of Vernon, Florida is required to deliver their audit report to the Florida Auditor General within nine months after the end of the audit period.

Condition – The City did file their audit report with the Florida Auditor General within nine month after the end of the audit period as required by Florida Statute 218.39(7).

Effect – The City is in violation of Florida Statute 218.396(7).

Cause – The City’s records were not made available in a timely manner in order to facilitate the completion of the audit within nine months after the end of the audit period.

Recommendation – The City should have controls in place to have their financial records available for audit in a timely manner after the fiscal year end. All reports are due nine months after the end of the audit period. Therefore, time should be allowed for the audit process to occur within the required parameters.

Response – Due to the many changes of staff, recordkeeping has been unorganized and it was difficult for the new clerk to follow what actions had been taken. Policy and procedures are being reviewed by City Council to help streamline this procedure.

2014-02

Criteria – The City of Vernon, Florida is required by bond ordinance to transfer specific amounts monthly and yearly into a Sinking Fund and a Reserve Fund.

Condition – The City did not transfer the required amounts into the Sinking and Reserve Funds.

Effect – The City is in violation of the Capital Improvement Revenue Bond Ordinance.

Cause – Due to changes in City staff, the transfers required by the Bond Ordinance were inadvertently not done.

Recommendation – The City should ensure that proper amounts are transferred in accordance with the Bond Ordinance.

Response – Due to the many changes in staff it was difficult for staff to follow what actions had been taken. Policy and procedures are being reviewed by City Council to ensure proper procedures are followed.

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OWEN W. GRIMSLEY, C.P.A.

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NDEPENDENT AUDITOR'S REPORT TO MANAGMENT

Honorable Mayor and City Council Members
City of Vernon
Vernon, Florida

Report on the Financial Statements

We have audited the financial statements of the City of Vernon, Florida as of and for the fiscal year ended September 30, 2018, and have issued our report thereon dated June 16, 2020.

Auditor's Responsibility

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Chapter 10.550, Rules of the Auditor General.

Other Reporting Requirements

We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*; Schedule of Findings; and Independent Accountant's Report on an examination conducted in accordance with *AICPA Professional Standards*, AT-C Section 315, regarding compliance requirements in accordance with Chapter 10.550, Rules of the Auditor General. Disclosures in those reports and schedule, which are dated June 16, 2020, should be considered in conjunction with this management letter.

Prior Audit Findings

Section 10.554(1)(i)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding financial audit report. Corrective actions have been taken to address findings and recommendations made in the preceding financial audit report except as noted below under the heading Prior Year Findings and Recommendations.

The management letter items are as follows:

Tabulation of Uncorrected Audit Findings		
Current Year Finding #	2016-17 FY Finding #	2015-16 FY Finding #
2012-02	2012-02	2012-02
2015-01	2015-01	2015-01

The schedule of findings items are as follows:

Tabulation of Uncorrected Audit Findings		
Current Year Finding #	2016-17 FY Finding #	2015-16 FY Finding #
2003-02	2003-02	2003-02
2007-01	2007-01	2007-01
2014-01	2014-01	2014-01
2014-02	2014-02	2014-02

Official Title and Legal Authority

Section 10.554(1)(i)4., Rules of the Auditor General, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes to the financial statements. This information is disclosed in the notes to the financial statements.

Financial Condition and Management

Sections 10.554(1)(i)5.a. and 10.556(7), Rules of the Auditor General, require us to apply appropriate procedures and communicate the results of our determination as to whether or not the City of Vernon, Florida has met one or more of the conditions described in Section 218.503(1) Florida Statutes, and to identify the specific conditions met. In connection with our audit, we determined that the City of Vernon, Florida did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

Pursuant to Sections 10.554(1)(i)5.b. and 10.556(8), Rules of the Auditor General, we applied financial condition assessment procedures for the City of Vernon, Florida. It is management's responsibility to monitor the City of Vernon, Florida's financial condition, and our financial condition assessment was based in part on representations made by management and review of financial information provided by same.

Section 10.554(1)(i)2., Rules of the Auditor General, requires that we communicate any recommendations to improve financial management. See items below under Prior Year Findings for our recommendations.

Additional Matters

Section 10.554(1)(i)3., Rules of the Auditor General, requires us to communicate noncompliance with provisions of contracts or grant agreements, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but warrant the attention of those charged with governance. In connection with our audit, we did not note any such findings.

Purpose of this Letter

Our management letter is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, the Florida Auditor General, Federal and other granting agencies, the Mayor and City Council, and applicable management, and is not intended to be and should not be used by anyone other than these specified parties.

Prior Year Findings

2012-02

It was noted during the audit that the City's Utility Customer Deposit Listing is not reconciled to the Utility Deposit bank account or the General Ledger. It is recommended that these items be reconciled monthly in order to strengthen internal controls. This item remains.

Response – City officials are aware of the need to reconcile all accounts on a regular basis. The city will put forth a policy for regular reconciliations of all necessary accounts.

2015-01

It was noted during the audit that the funds drawn out of the Surety Deposit Account in the prior years have not been repaid. These funds should be returned to the Surety Deposit Account as these funds are held in trust for individuals but are not property of the City.

Response – The City staff will review surety account to ensure all funds have been repaid.

Grimsley & Associates

Marianna, Florida
June 16, 2020

Grimsley & Associates, P.A.
Certified Public Accountants