

**CITY OF VERNON
VERNON, FLORIDA**

FINANCIAL STATEMENTS

SEPTEMBER 30, 2021

**CITY OF VERNON
VERNON, FLORIDA
FINANCIAL STATEMENTS
AS OF SEPTEMBER 30, 2021
C O N T E N T S**

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PO Box 6356
Dothan, Alabama 36302

Independent Auditor's Report

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

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, 2021, and the related notes to the financial statements, which collectively comprise City of Vernon, Florida's financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The City of Vernon, Florida's 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 and each major fund, and the aggregate remaining fund information of the City of Vernon, Florida, as of September 30, 2021, 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 schedules of the City's proportionate share of the net pension liability and of its contributions on pages 50 - 51 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's 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 July 31, 2022 on our consideration of the City of Vernon, Florida's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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 City of Vernon, Florida's internal control over financial reporting and compliance.

McDaniel & Associates, P.C.

Dothan, Alabama

August 12, 2022

FINANCIAL STATEMENTS

**CITY OF VERNON
VERNON, FLORIDA
STATEMENT OF NET POSITION
SEPTEMBER 30, 2021**

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 380,028	\$ 79,735	\$ 459,763
Restricted assets	10,938	43,387	54,325
Investments	10,478	30,883	41,361
Accounts receivable	9,567	15,666	25,233
Due from other governments	380,471	-	380,471
Due from other funds	5,229	13,158	18,387
Capital assets:			
Land	249,112	86,988	336,100
Other capital assets, net of depreciation	7,123,303	10,863,202	17,986,505
Total capital assets	7,372,415	10,950,190	18,322,605
TOTAL ASSETS	8,169,126	11,133,019	19,302,145
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pension	20,087	20,784	40,871
TOTAL DEFERRED OUTFLOWS OF RESOURCES	20,087	20,784	40,871
LIABILITIES			
Accounts payable and accrued expenses	4,599	12,001	16,600
Customer deposits	-	43,649	43,649
Due to other funds	18,187	200	18,387
Long term liabilities			
Due within one year	23,165	66,439	89,604
Due in more than one year	66,695	514,110	580,805
Net pension liability	33,486	44,542	78,028
TOTAL LIABILITIES	146,132	680,941	827,073

The accompanying notes are an integral part of these financial statements

**CITY OF VERNON
VERNON, FLORIDA
STATEMENT OF NET POSITION
SEPTEMBER 30, 2021**

	Governmental Activities	Business-Type Activities	Total
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pension	46,958	30,813	77,771
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>46,958</u>	<u>30,813</u>	<u>77,771</u>
NET POSITION			
Net investment in capital assets	7,282,555	10,369,641	17,652,196
Restricted for other purposes	10,938	43,387	54,325
Unrestricted	702,630	29,021	731,651
TOTAL NET POSITION	<u>\$ 7,996,123</u>	<u>\$ 10,442,049</u>	<u>\$ 18,438,172</u>

The accompanying notes are an integral part of these financial statements

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

Activities	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets		Total
		Fees and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	
Governmental							
General government	\$ 558,382	\$ 99,066	\$ 353,603	\$ 89,543	\$ (16,170)	\$ -	\$ (16,170)
Public safety	24,154	-	63,143	-	38,989	-	38,989
Highways and streets	129,472	-	-	-	(129,472)	-	(129,472)
Culture and recreation	73,097	-	-	-	(73,097)	-	(73,097)
Interest on long-term debt	5,465	-	-	-	(5,465)	-	(5,465)
Total governmental activities	790,570	99,066	416,746	89,543	(185,215)	-	(185,215)
Business-Type							
Water, sewer, and garbage	705,140	479,409	-	-	-	(225,731)	(225,731)
Total business-type activities	705,140	479,409	-	-	-	(225,731)	(225,731)
Total Primary Government	<u>\$ 1,495,710</u>	<u>\$ 578,475</u>	<u>\$ 416,746</u>	<u>\$ 89,543</u>	(185,215)	(225,731)	(410,946)

The accompanying notes are an integral part of these financial statements.

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

General Revenues and Transfers			
Taxes			
Property tax, levied for general purposes	91,470	-	91,470
Taxes-other	193,792	-	193,792
Miscellaneous	166,378	-	166,378
Total general revenues and transfers	<u>451,640</u>	<u>-</u>	<u>451,640</u>
Change in net position	<u>\$ 266,425</u>	<u>\$ (225,731)</u>	40,694
Net position - beginning			<u>18,397,478</u>
Net position - ending			<u>\$ 18,438,172</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF VERNON
VERNON, FLORIDA
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2021**

	General	City Hall Fund	Total Governmental Funds
ASSETS			
Cash	\$ 325,621	\$ 54,407	\$ 380,028
Restricted assets	10,938	-	10,938
Investments	10,478	-	10,478
Accounts receivable	7,221	2,346	9,567
Due from other governments	380,471	-	380,471
Due from other funds	4,694	535	5,229
Total Assets	\$ 739,423	\$ 57,288	\$ 796,711
LIABILITIES AND FUND BALANCES			
Accounts payable and accrued expenses	\$ 3,833	\$ 766	\$ 4,599
Due to other funds	18,187	-	18,187
Total Liabilities	22,020	766	22,786
FUND BALANCES			
Restricted	10,938	-	10,938
Unassigned	706,465	56,522	762,987
Total Fund Balances	717,403	56,522	773,925
TOTAL LIABILITIES AND FUND BALANCES	\$ 739,423	\$ 57,288	\$ 796,711

The accompanying notes are an integral part of these financial statements.

**CITY OF VERNON
VERNON, FLORIDA
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET POSITION
FOR THE YEAR ENDED SEPTEMBER 30, 2021**

Total Fund Balances for Governmental Funds \$ 773,925

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. Those assets consist of:

Capital assets	11,715,301	
Depreciation	<u>(4,342,886)</u>	7,372,415

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. (89,860)

Some liabilities, including net pension obligations, are not due and payable in the current period and, therefore, are not reported in the funds. (33,486)

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 - pensions		20,087
Deferred inflows of resources - pensions		<u>(46,958)</u>

Total Net Position of Governmental Activities \$ 7,996,123

The accompanying notes are an integral part of these financial statements.

**CITY OF VERNON
VERNON, FLORIDA
GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED SEPTEMBER 30, 2021**

	General	City Hall Fund	Total Governmental Funds
Revenues			
Taxes	\$ 251,719	\$ -	\$ 251,719
Permits, fees, and licenses	72,601	-	72,601
Grants	506,288	-	506,288
Intergovernmental revenues	140,838	-	140,838
Charges for services	18,891	7,652	26,543
Miscellaneous revenues	59,007	-	59,007
Total Revenues	<u>1,049,344</u>	<u>7,652</u>	<u>1,056,996</u>
Expenditures			
General government	292,980	11,602	304,582
Public safety	24,154	-	24,154
Highways and streets	129,472	-	129,472
Culture and recreation	73,097	-	73,097
Debt service:			
Principal retirement	21,938	-	21,938
Interest	5,465	-	5,465
Capital outlay	5,718	-	5,718
Total Expenditures	<u>552,824</u>	<u>11,602</u>	<u>564,426</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>496,520</u>	<u>(3,950)</u>	<u>492,570</u>
Net Change in Fund Balances	496,520	(3,950)	492,570
FUND BALANCE - BEGINNING	<u>220,883</u>	<u>60,472</u>	<u>281,355</u>
FUND BALANCE - ENDING	<u>\$ 717,403</u>	<u>\$ 56,522</u>	<u>\$ 773,925</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF VERNON
VERNON, FLORIDA
RECONCILIATION OF THE GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
TO THE STATEMENTS OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2021**

Net Changes in Fund Balances - Total Governmental Funds \$ 492,570

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 \$250,049 exceeded capital outlay \$5,718 in the current period.

Capital outlay of fixed assets	5,718	
Depreciation	<u>(250,049)</u>	(244,331)

Debt proceeds provide current financial resources to governmental funds, but issuing debt increases 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 \$21,938 exceeded proceeds \$0.

Repayments	21,938
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Governmental Funds report pensions contributions as expenditures. However, in the statement of activities, the cost of pension benefits earned are reported as pension expense.

(3,752)

Change in Net Position of Governmental Activities	<u><u>\$ 266,425</u></u>
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The accompanying notes are an integral part of these financial statements.

**CITY OF VERNON
VERNON, FLORIDA
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES -
BUDGET TO ACTUAL - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2021**

	Original Budget	Final Budget	Actual Amounts (GAAP Basis)
Revenues			
Taxes	\$ 278,696	\$ 284,005	\$ 251,719
Licenses and permits	70,000	70,000	72,601
Intergovernmental revenues	41,760	41,760	647,126
Charges for services	30,000	47,000	18,891
Miscellaneous revenues	1,880	41,677	59,007
Total Revenues	<u>422,336</u>	<u>484,442</u>	<u>1,049,344</u>
Expenditures			
General government	168,082	191,110	292,980
Public safety	62,650	63,650	24,154
Transportation	120,085	139,952	129,472
Culture and recreation	71,519	89,730	73,097
Debt service:			
Principal	-	-	21,938
Interest	-	-	5,465
Capital outlay	-	-	5,718
Total Expenditures	<u>422,336</u>	<u>484,442</u>	<u>552,824</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>-</u>	<u>-</u>	<u>496,520</u>
Net Change in Fund Balances	-	-	496,520
FUND BALANCE - BEGINNING	<u>220,883</u>	<u>220,883</u>	<u>220,883</u>
FUND BALANCE - ENDING	<u>\$ 220,883</u>	<u>\$ 220,883</u>	<u>\$ 717,403</u>

The accompanying notes are an integral part of these financial statements.

CITY OF VERNON
VERNON, FLORIDA
STATEMENT OF NET POSITION -
PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2021

ASSETS

Current Assets

Cash and cash equivalents	\$ 79,735
Investments	30,883
Accounts receivable	<u>15,666</u>

Total Current Assets 126,284

NON CURRENT ASSETS

Restricted cash and cash equivalents	43,387
Due from other funds	13,158
Due from other governments	-

Capital Assets:

Land and constuction in progress	86,988
Buildings	345,575
Improvements other than buildings	14,667,685
Machinery and equipment	323,473
Less: Accumulated depreciation	<u>(4,473,531)</u>

Total Noncurrent Assets 11,006,735

Total Assets 11,133,019

Deferred Outflows of Resources

Deferred outflows related to pensions	20,784
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LIABILITIES

Current Liabilities

Accounts payable and accrued expenses	12,001
Bonds and notes payable	<u>66,439</u>

Total Current Liabilities 78,440

The accompanying notes are an integral part of these financial statements.

CITY OF VERNON
VERNON, FLORIDA
STATEMENT OF NET POSITION -
PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2021

Noncurrent Liabilities	
Customer deposits	43,649
Due to Other Funds	200
Bonds and notes payable after one year	514,110
Net pension liability	44,542
	602,501
Total Noncurrent Liabilities	602,501
Total Liabilities	680,941
Deferred Inflows of Resources	
Deferred inflows related to pensions	30,813
NET POSITION	
Invested in capital assets, net of related debt	10,369,641
Restricted:	
Other purposes	43,387
Unrestricted (Deficit)	29,021
	10,442,049
Total Net Position	\$ 10,442,049

The accompanying notes are an integral part of these financial statements.

**CITY OF VERNON
VERNON, FLORIDA
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN NET POSITION - PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2021**

OPERATING REVENUES	
Charges for services	\$ 479,409
Total Operating Revenues	<u>479,409</u>
OPERATING EXPENSES	
Salaries and benefits	100,721
Legal and professional	49,679
Insurance	1,374
Utility service	142,930
Repairs and maintenance	31,734
Operating supplies and miscellaneous	60,211
Depreciation and amortization	309,212
Total Operating Expenses	<u>695,861</u>
OPERATING LOSS	(216,452)
NON-OPERATING REVENUE (EXPENSES)	
Interest Expense	9,279
Total Non-Operating Revenue (Expenses)	<u>9,279</u>
Change in Net Position	(225,731)
TOTAL NET POSITION - BEGINNING OF YEAR	<u>10,667,780</u>
TOTAL NET POSITION - END OF YEAR	<u><u>\$ 10,442,049</u></u>

The accompanying notes are an integral part of these financial statements.

**CITY OF VERNON
VERNON, FLORIDA
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2021**

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 494,197
Cash paid to suppliers	(287,122)
Cash paid to employees	<u>(94,946)</u>
Net Cash Provided (Used) by Operating Activities	112,129
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchase of capital assets	-
Interest paid on debt	(9,279)
Principal paid on debt	<u>(57,160)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	(66,439)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and dividends on investments	<u>(44)</u>
Net Cash Provided (Used) by Investing Activities	<u>(44)</u>
Net Increase (Decrease) In Cash and Cash Equivalents	45,646
CASH AND CASH EQUIVALENTS - BEGINNING	<u>77,476</u>
CASH AND CASH EQUIVALENTS - ENDING	<u><u>\$ 123,122</u></u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET POSITION - PROPRIETARY FUND	
Cash, Cash Equivalents, and Restricted Cash in Current Assets	\$ 79,735
Restricted Cash and Cash Equivalents in Noncurrent Assets	<u>43,387</u>
TOTAL CASH AND CASH EQUIVALENTS - ENDING	<u><u>\$ 123,122</u></u>

The accompanying notes are an integral part of these financial statements.

**CITY OF VERNON
VERNON, FLORIDA
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2021**

**Reconciliation of Operating Income (Loss) to Net Cash
Provided (Used) by Operating Activities**

OPERATING INCOME (LOSS)	\$(216,452)
ADJUSTMENTS	
Depreciation	309,212
Net pension adjustment	2,300
Changes in assets and liabilities:	
(Increase) Decrease in Accounts and Other Receivables	11,938
Increase (Decrease) in Accounts Payable	1,623
Increase (Decrease) in Customer Deposits	<u>3,508</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 112,129</u>

The accompanying notes are an integral part of these financial statements.

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

Note 1- Summary of Significant Accounting Policies

The financial statements of the City of Vernon, Florida (the "City") 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 more significant accounting and reporting policies and practices used by the City are described below.

A. 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. The City is governed by an elected mayor and five-member council. The City provides such services as are allowed under Florida law, including public safety (fire), culture, recreation, streets, water and sewer utilities and general administrative services.

The City of Vernon, Florida Utility Department - The City of Vernon, Florida Utility Department serves citizens of the government and is governed by a board which is the same as the City's governing body. The rates for user charges and bond issuance authorizations are approved by the City council and the legal liability for the general obligation portion of the Department's debt remains with the City. The Department is reported as a proprietary fund. The City provides water, sewer, and garbage services to approximately 355 customers.

B. Measurement Focus, Basis of Accounting, and Financial Statement Preparation

The City's basic financial statements include both government-wide (reporting the City as a whole) and fund financial statements (reporting the City's major funds). The focus is on both the City as a whole and the fund financial statements, including the major individual funds of the governmental and business-type categories. Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type. The City's police, rescue, fire protection, cemetery, recreation, public works, and general administrative services are classified as governmental activities. The City's water, sewer, and garbage services are classified as business-type activities.

Government-Wide Financial Statements

The government-wide financial statements (i.e. the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

B. Measurement Focus, Basis of Accounting, and Financial Statement Preparation, Continued

Government-Wide Financial Statements, Continued

In the government-wide Statement of Net Position both the governmental and business-type activities columns (a) are presented on a consolidated basis by column (b), and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The City's net position is reported in three parts - net investment in capital assets, restricted net position, and unrestricted net position. The City first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the City's governmental activities and business-type activities (general government, public protection, public works, and utilities). General government revenues (property taxes, retail sales & use taxes, excise taxes, and other taxes) also support the functions. The Statement of Activities reduces gross expenses (including depreciation) by related program revenues (charges for services, operating and capital grants and contributions). Program revenues must be directly associated with the function or a business-type activity. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants reflect capital-specific grants.

Amounts reported as program revenues include 1) charges to customers for goods, services or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

For the most part, the effect of interfund activity has been eliminated from the government-wide financial statements. Direct expenses of the functional categories are included in the government-wide statement of activities while indirect expense allocations are eliminated.

The net costs (by function or business-type activity) are normally covered by general revenue.

The government-wide focus is more on the sustainability of the City as an entity and the change in the City's net position resulting from the current year's activities.

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

B. Measurement Focus, Basis of Accounting, and Financial Statement Preparation, Continued

Fund Financial Statements

In the fund financial statements, financial transactions and accounts of the City are organized on the basis of funds. The operation of each fund is considered to be an independent fiscal and separate accounting entity, with a self-balancing set of accounts recording cash and/ or other financial resources together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. The fund statements are presented on a current financial resource and modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements governmental column, a reconciliation is presented which briefly explains the adjustment necessary to reconcile the fund financial statements to the governmental column of the government-wide financial statements.

The following fund types are used by the City:

Governmental Funds

Governmental Funds are those through which most governments typically are financed. The following is a description of the governmental funds of the City:

General Fund - The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

City Hall Fund - The City Hall Fund is used to report activity with the funds set aside for expenses of City Hall property.

Proprietary Funds

Proprietary Funds are used to account for activities that are similar to those often found in the private sector. All assets, liabilities, equities, revenues, expenses, and payments relating to the government's business activities are accounted for through proprietary funds. The measurement focus is on determination of operating income, financial position, changes in net position and cash flows. Operating revenues include charges for services. Operating expenses include costs of services as well as, materials, contracts, personnel, and depreciation. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses. The following is a description of the proprietary funds of the City:

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

B. Measurement Focus, Basis of Accounting, and Financial Statement Preparation, Continued

Proprietary Funds, Continued

Enterprise Fund - The Enterprise Fund accounts for operations that are financed in a manner similar to private business enterprises, where the intent is that costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The City's Enterprise Fund accounts for the operations of the City's Water and Sewer System and Garbage Services.

Major Funds

The emphasis in fund financial statements is on the major funds in either the governmental or business-type activities categories. GASB No. 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds.

The City reports the following major governmental funds:

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

The City Hall Fund is used to report activity with the funds set aside for expenses of City Hall property.

The City reports the sole Enterprise Fund as a major fund.

Government-Wide Financial Statements

The government-wide statement of net position and statement of activities, all proprietary funds, and private purpose trust funds and pension trust funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these activities are either included on the statement of net position or on the statement of fiduciary net position. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total position.

The statement of net position, statement of activities and financial statements of the Proprietary Funds are presented on the accrual basis of accounting. Under this method of accounting exchange, revenues are recognized when earned and expenses are recorded when liabilities are incurred without regard to receipt or disbursement of cash. Real and personal property taxes are recognized in the period for which levied, provided the City has an enforceable legal claim to the resources. Grants, shared revenues, and contributions are recognized when all eligibility requirements have been met.

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

B. Measurement Focus, Basis of Accounting, and Financial Statement Preparation, Continued

Governmental Fund Financial Statements

The fund financial statements of the General and Special Revenue Funds are maintained and reported on the modified accrual basis of accounting using the current financial resources measurement focus. Under this method of accounting, revenues are recognized in the period in which they become measurable and available. With respect to real and personal property tax revenue and other local taxes, the term "available" means collectible within the current period or within sixty days of the fiscal year end. Levies made prior to the fiscal year end but which are not available are deferred inflows of resources. Interest income is recorded as earned. Federal and State reimbursement-type grants are recorded as revenue when related eligible expenditures are incurred. Expenditures, other than accrued interest on long-term debt, are recorded when the fund liability is incurred.

C. Assets, Liabilities, Deferred Inflows (Outflows) of Resources, and Fund Equity

Cash and Cash Equivalents

The City has defined cash and cash equivalents to include cash on hand, demand deposits, and short-term investments with a maturity date within three months of the date acquired by the government.

Investments

The City's investment policies are designed with the intent of ensuring the City's funds are invested in a manner that complies with Florida Statutes. Pursuant to Florida Statute 218.415 and the City's investment policy, the City may invest surplus funds in:

- The Local Government Surplus Trust Fund or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act, as provided in Section 163.01, Florida Statutes.
- Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally registered rating agency.
- Savings accounts in state-certified qualified public depositories, as defined in Section 280.02, Florida Statutes.
- Certificates of Deposit in state-certified qualified public depositories, as defined in Section 280.02, Florida Statutes.
- Direct Obligations of the U.S. Territory.
- Federal agencies and instrumentalities.

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

C. Assets, Liabilities, Deferred Inflows (Outflows) of Resources, and Fund Equity, Continued

Accounts Receivable

Governmental Funds - The City considered all governmental fund receivables collectible and as such, no allowance for uncollectible is reported.

Proprietary Fund - The City grants credit to its proprietary fund customers who use its various services, substantially all of whom are local residents or businesses. The City uses the direct write-off method to account for bad debts. The effect on the financial statements of the departure from accounting principles generally accepted in the United States of America is immaterial. No bad debts were written off during the year ended September 30, 2021.

Interfund Activity

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/ from other funds" (i.e. , the current portion of inter-fund loans) or "advances to/ from other funds" (i.e., the non-current portion of inter-fund loans). All other outstanding balances between funds are reported as "due to/ from other funds." Any residual balances outstanding between the governmental activities and business -type activities are reported in the government-wide financial statements as "internal balances."

Transfers between governmental and business-type activities on the government-wide statement of activities are reported as general revenues. Transfers between funds reported in the governmental activities column are eliminated. Transfers between funds reported in the business-type activities column are eliminated.

Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after the non-operating revenues/ expenses section in proprietary funds.

Restricted Assets

Certain assets of the enterprise funds are required by resolution to be set aside and used for specific purposes; thus, they are not available for general operating purposes. It is the City's policy to use restricted assets before unrestricted assets when both are available to fund specific expenditures.

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

C. Assets, Liabilities, Deferred Inflows (Outflows) of Resources, and Fund Equity, Continued

Capital Assets

Capital assets purchased or acquired with an original cost of \$5,000 or more are reported at historical cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value as of the date of donation. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are expensed as incurred. Interest incurred during the construction phase on loans obtained for long-term construction projects are capitalized into the cost of the asset.

Property, plant, and equipment are depreciated using the straight-line method over the following

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

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then. The City has one item that qualifies for reporting as deferred outflows of resources, deferred outflows related to pensions, reported in the government-wide and proprietary funds statements of net position. The deferred outflows related to pensions are an aggregate of items related to pensions as calculated in accordance with GASB 67 and 68. The deferred outflows related to pensions will be recognized as either pension expense or a reduction in the net pension liability in future reporting years. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has one item that qualifies for reporting as deferred inflows of resources. The deferred inflows related to pensions are an aggregate of items related to pensions as calculated in accordance with GASB 68 and 75. The deferred inflows related to pensions will be recognized as a reduction to pension expense in future reporting years.

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

C. Assets, Liabilities, Deferred Inflows (Outflows) of Resources, and Fund Equity, Continued

Compensated Absences

Vacation pay policies allow an employee to accumulate up to a maximum of 240 hours of paid time off, which will be paid to the employee in the event of termination of employment. Employees accrue 40 hours each of the first two years of employment and 80 hours per year after two years of employment.

All leave is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts in the government-wide statements consists of unpaid, accumulated annual leave balances. The estimated current portion of the liability for vested vacation and sick leave benefits attributable to the City's governmental fund is recorded as an expenditure and liability in the General Fund. The non-current portion for governmental funds is maintained separately and represents a reconciling item between the fund and governmental-wide presentations. The amount attributable to the enterprise funds are charged to expense and a corresponding liability in the applicable fund.

The City did not record a liability for compensated absences for the current period as the balance was deemed immaterial.

Pension Plans

Florida Retirement System - Substantially all full-time City employees are participants in the Florida Retirement System (the "System"), a defined benefit, cost sharing, multiple employer public retirement system, which is controlled by the State Legislature and administered by the State of Florida, Department of Administration, Division of Retirement.

Health Insurance Subsidy Program - Chapter 112, Florida Statutes, established the Retiree Health Insurance Subsidy Program ("HIS"), a cost-sharing multiple-employer defined benefit pension plan to assist retired members of any State- administered retirement system in paying the costs of health insurance. Contributions to the HIS plan are included in contributions to the Pension Plan noted above.

Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bonds payable are reported net of the applicable bond premium or discount.

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

C. Assets, Liabilities, Deferred Inflows (Outflows) of Resources, and Fund Equity, Continued

Long-Term Obligations, Continued

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Net Position and Fund Equity

Net position is reported on the government-wide financial statements and is required to be classified for accounting and reporting purposes into the following net position categories:

Net Investment in Capital Assets - Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets. Any significant unspent proceeds at year-end related to capital assets are reported as restricted funds.

Restricted - Constraints imposed on net position by external creditors, grantors, contributors, laws or regulations of other governments, or law through constitutional provision or enabling legislation.

Unrestricted - Net position that is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of the City Council.

Fund balances are reported in the fund financial statements in two major categories: nonspendable and spendable. Nonspendable fund balances are balances that cannot be spent because they are not expected to be converted to cash or they are legally or contractually required to remain intact. Spendable fund balances are reported based on a hierarchy of spending constraints noted below:

Restricted - Fund balances that are restricted to specific purposes because of constitutional provisions, charter requirements or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed - Fund balances that contain self-imposed constraints of the government from its highest level of decision-making authority.

Assigned - Fund balances that contain self-imposed constraints of the government to be used for a particular purpose.

Unassigned - Fund balances of the general fund that are not constrained for any particular purpose.

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

C. Assets, Liabilities, Deferred Inflows (Outflows) of Resources, and Fund Equity, Continued

Net Position and Fund Equity, Continued

When both restricted and unrestricted net position are available, it is the City's policy to use restricted resources first, then unrestricted as needed. The authority to establish, modify, or rescind a commitment or assigned fund balance rests with the City Council. The City's policy is to first apply expenditures toward restricted fund balances and then to other, less-restrictive classifications - committed and then assigned fund balances before using unassigned fund balances.

Tax Revenue

The City's ad valorem taxes are assessed by the Washington County Property Appraiser and collected by the Washington County Tax Collector in accordance with Florida Statutes. The City retains the right and duty to set millage rates. Property taxes are not recorded as receivables at September 30 because, though legally assessed as of January 1, they are not due and payable until after the close of the fiscal year ended the following September 30.

The current property tax calendar is as follows:

Lien date:	January 1, 2020
Lcvy date:	November 1, 2020
Due date:	March 31, 2021
Delinquent date:	April 1, 2021

Discounts of 1 % for each month taxes are paid prior to March are granted.

Revenue recognition criteria for property taxes recognizes and accrues property taxes expected to be collected within 60 days of the current period. There were no outstanding property taxes accrued and recognized as revenue at year-end.

Management Estimates and Assumptions

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could vary from estimates used.

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

C. Assets, Liabilities, Deferred Inflows (Outflows) of Resources, and Fund Equity, Continued

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.

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.

Note 2- Stewardship, Compliance, and Accountability

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
VERNON, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021**

C. Assets, Liabilities, Deferred Inflows (Outflows) of Resources, and Fund Equity, Continued

Note 3 - Cash, Cash Equivalents, and Investments

Cash and cash equivalents represent cash on hand as well as demand deposits, and certificates of deposit with original maturities of three months or less. Investments are comprised of certificates of deposit with original maturities greater than three months.

Investments

Investments are comprised of the following, at amortized cost.

Investment Type	Fair Value	0-1 Years	1-2 Years	2-3 Years	3-5 Years
Certificates of Deposit	\$ 41,361	\$ 41,361	\$ -	\$ -	\$ -

The City maintains its deposits with "Qualified Public Depositories" as defined in Chapter 280, Florida Statutes. All Qualified Public Depositories must place with the Treasurer of the State of Florida, securities which have a market value equal to 50% of all public funds on deposit at the end of each month in excess of any applicable deposit insurance. In the event of default by a Qualified Public Depository, the State Treasurer will pay public depositors all losses. Losses in excess of insurance and collateral will be paid through assessments between all Qualified Public Depositories.

Custodial Credit Risk

The custodial credit risk for deposits is the risk that, in the event of a bank failure, the City will not be able to cover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The City has no formal deposit or investment policy but follows State law as to what deposits and investments are allowed.

Demand and time deposits are fully insured by the Federal Deposit Insurance Corporation (FDIC) and the multiple financial institution collateral pool required by Chapter 280, Florida Statutes.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributable to the quantity of the government's investment in a single issuer. Investments in single issuers that equal or exceed 5% have reportable credit risk. The certificates of deposit are with one financial institution. All certificate of deposit balances in excess of FDIC coverage, when applicable, are covered by the multiple financial institutions 1 collateral pool in accordance with Florida Statutes Chapter 280.

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

C. Assets, Liabilities, Deferred Inflows (Outflows) of Resources, and Fund Equity, Continued

Investment Rate Risk

Investment rate risk is the risk that changes in the interest rate will adversely affect the fair value of an investment. The City recognizes that the longer a maturity of an investment, the greater its price volatility. The City follows State law as to what investments are allowed.

Note 4 - Receivables

The City reported receivables as follows:

General Fund	
Account Receivable - Other	\$ 7,221
Due from Other	380,471
	<u>\$ 387,692</u>
City Hall Fund	
Insurance Receivable	\$ 2,346
	<u>2,346</u>
Enterprise Fund	
Water Fees, Refuse Fees,	\$ 15,666
	<u>15,666</u>

No allowances for uncollectible accounts are considered necessary.

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

C. Assets, Liabilities, Deferred Inflows (Outflows) of Resources, and Fund Equity, Continued

Note 5 - Capital Assets

Governmental asset activity for the year ending September 30, 2021 was as follows:

	Beginning Balance	Increases	Deletions	Ending Balance
Governmental Activities:				
Capital Assets				
Not Being Depreciated:				
Land Improvements	\$ 249,112	\$ -	\$ -	\$ 249,112
Total Capital Assets				
Not Being Depreciated	249,112	-	-	249,112
Capital Assets				
Being Depreciated:				
Buildings and Improvements	10,747,797	-	-	10,747,797
Equipment	712,674	5,718	-	718,392
Total Capital Assets				
Being Depreciated	11,460,471	5,718	-	11,466,189
Less Accumulated				
Depreciation For:				
Building and Improvements	3,429,130	235,019	-	3,664,149
Equipment	663,707	15,030	-	678,737
Total Accumulated Depreciation	4,092,837	250,049	-	4,342,886
Capital Assets				
Being Depreciated, Net	7,367,634	(244,331)	-	7,123,303
Total Governmental Activities	\$ 7,616,746	\$ (244,331)	\$ -	\$ 7,372,415

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

C. Assets, Liabilities, Deferred Inflows (Outflows) of Resources, and Fund Equity, Continued

Note 5 - Capital Assets, Continued

Depreciation expense was charged to governmental activities as follows:

General Government	\$ 129,220
Public Safety	9,702
Transportation	4,247
Culture/ Recreation	<u>106,880</u>
Total	<u>\$ 250,049</u>

Business Type asset activity for the year ending September 30, 2021 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Deletions</u>	<u>Ending Balances</u>
Business Type:				
Capital Assets				
Not Being Depreciated:				
Land Improvements	\$ 86,988	\$ -	\$ -	\$ 86,988
Total Capital Assets				
Not Being Depreciated	<u>86,988</u>	<u>-</u>	<u>-</u>	<u>86,988</u>
Capital Assets				
Being Depreciated:				
Buildings	345,575	-	-	345,575
Improvements other than				
Buildings	14,667,685	-	-	14,667,685
Equipment	<u>323,473</u>	<u>-</u>	<u>-</u>	<u>323,473</u>
Total Capital Assets, Being				
Depreciated	<u>15,336,733</u>	<u>-</u>	<u>-</u>	<u>15,336,733</u>

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

C. Assets, Liabilities, Deferred Inflows (Outflows) of Resources, and Fund Equity, Continued

Note 5 - Capital Assets, Continued

Less Accumulated
Depreciation For:

Building and Improvements	117,333	6,912	-	124,245
Improvements Other than Buildings	3,935,428	291,450	-	4,226,878
Equipment	111,558	10,850	-	122,408
	<u>4,164,319</u>	<u>309,212</u>	<u>-</u>	<u>4,473,531</u>
Total Accumulated Depreciation				
Capital Assets, Being Depreciated, Net				
Depreciated, Net	<u>11,172,414</u>	<u>(309,212)</u>	<u>-</u>	<u>10,863,202</u>
Total Business-Type Capital Assets	<u>\$11,259,402</u>	<u>\$ (309,212)</u>	<u>\$ -</u>	<u>\$10,950,190</u>

Note 6 - 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. \$ 53,350

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

C. Assets, Liabilities, Deferred Inflows (Outflows) of Resources, and Fund Equity, Continued

Note 6 - Long Term Debt, Continued

Lease Purchase:

\$197,898 payable in quarterly payment \$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, 2021:

	2022	19,380
	2023	<u>19,381</u>
	Total	38,761
Less Amount Representing Interest		<u>(2,251)</u>
Present Value of Minimum		<u>36,510</u>
Total Governmental-Type		<u><u>\$ 89,860</u></u>

Debt Service requirements to maturity on the City's revenue bond and lease purchase at September 30, 2021, are as follows:

Year Ending September	Principal	Interest	Totals
2022	\$ 23,165	\$ 4,282	\$ 27,447
2023	24,345	3,034	27,379
2024	5,900	2,118	8,018
2025	6,200	1,823	8,023
2026	6,500	1,513	8,013
2027-2029	<u>23,750</u>	<u>2,528</u>	<u>26,278</u>
Totals	<u><u>\$ 89,860</u></u>	<u><u>\$ 15,298</u></u>	<u><u>\$ 105,158</u></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.

\$ 223,325

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

C. Assets, Liabilities, Deferred Inflows (Outflows) of Resources, and Fund Equity, Continued

Note 6- Long Term Debt, Continued

DEP Note Payable:

\$391,868 Wastewater Treatment Facility Construction Loan payable in semiannual payments at .915% - secured by pledged revenues - Water and Sewer operations. 79,951

DEP Note Payable:

\$586,846 Wastewater Treatment Facility Construction Loan payable in semiannual payments at 1.40% - secured by pledged revenues - Water and Sewer operations. 277,273

Total Business-Type Activities \$ 580,549

The following is the debt service requirements for the business type activities note payable and line of credit at September 30, 2021.

<u>Year Ending September</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2022	\$ 60,329	\$ 6,110	\$ 66,439
2023	60,845	5,593	66,438
2024	61,367	5,072	66,439
2025	61,894	4,546	66,440
2026	55,792	4,015	59,807
2027-2031	83,638	16,084	99,722
2062-2036	64,364	11,242	75,606
2037-2041	56,478	7,320	63,798
2042-2046	60,558	3,240	63,798
2047	15,284	133	15,417
Totals	<u><u>\$ 580,549</u></u>	<u><u>\$ 63,355</u></u>	<u><u>\$ 643,904</u></u>

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

C. Assets, Liabilities, Deferred Inflows (Outflows) of Resources, and Fund Equity, Continued

Note 6 - Long Term Debt, Continued

Long-term liability activity for the year ended September 30, 2021 was as follows:

Governmental Activities

Description	Balance September 2020	Additions	Reductions	Balance September 30, 2021	Due Within One Year
General Obligation					
Revenue Bond	\$ 58,450	\$ -	\$ 5,100	\$ 53,350	\$ 5,400
Lease Purchase	53,348	-	16,838	36,510	17,765
Totals	<u>\$ 111,798</u>	<u>\$ -</u>	<u>\$ 21,938</u>	<u>\$ 89,860</u>	<u>\$ 23,165</u>

Business-Type

Description	Balance September 2020	Additions	Reductions	Balance September 30, 2021	Due Within One Year
Water Revenue	\$ 637,709	\$ -	\$ 57,160	\$ 580,549	\$ 60,329
Totals	<u>\$ 637,709</u>	<u>\$ -</u>	<u>\$ 57,160</u>	<u>\$ 580,549</u>	<u>\$ 60,329</u>

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

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.

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

C. Assets, Liabilities, Deferred Inflows (Outflows) of Resources, and Fund Equity, Continued

Note 6 - Long Term Debt, Continued

- 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 monies 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 7 - Pension Plans

Defined Benefit Plans

The City participates in two defined benefit pension plans that are administered by the State of Florida, Department of Management Services, Division of Retirement. 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. The State of Florida issues a publicly available financial report that includes financial statements and required supplementary information for the plans. That report is available from the Florida Department of Management Services website: (www.dms.myflorida.com).

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

C. Assets, Liabilities, Deferred Inflows (Outflows) of Resources, and Fund Equity, Continued

Note 7 - 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 non-integrated 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; the age after 55 the member becomes vested; after 25 years of service, consisting of both special risk service and up to four years 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.

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

C. Assets, Liabilities, Deferred Inflows (Outflows) of Resources, and Fund Equity, Continued

Note 7 - Pension Plans, Continued

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.

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 contribution requirements of plan members and the City are established and may be amended by the Florida Legislature.

Applicable rates effective September 30, 2021 were:

Class	Employee Contribution Rate	Employer Contribution Rate	Total Contribution Rate
Regular	3.00%	10.82%	13.82%
Special Risk	3.00%	25.89%	28.89%
DROP	N/A	18.34%	18.34%

The above rate is 1.66% for the health insurance subsidy contribution.

Total payroll for the City's employees covered by the System was \$179,867 for the year ended September 30, 2021.

The City's contributions for the year ended September 30, 2021 were \$10,100 to the FRS and \$2,779 to the HIS.

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

C. Assets, Liabilities, Deferred Inflows (Outflows) of Resources, and Fund Equity, Continued

Note 7 - Pension Plans, Continued

Pension Liabilities and Pension Expense

At September 30, 2021, 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, 2020 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation dated June 30, 2021. 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.

	<u>FRS</u>	<u>HIS</u>	<u>Total</u>
Net pension liability at September 30, 2021	\$ 20,028	\$ 58,000	\$ 78,028
Proportion at:			
June 30, 2021	0.000265115%	0.000472835%	
June 30, 2020	0.000198354%	0.000390086%	
Pension expense, year ended September 30, 2021	<u>\$ 10,745</u>	<u>\$ 2,872</u>	<u>\$ 13,617</u>

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

C. Assets, Liabilities, Deferred Inflows (Outflows) of Resources, and Fund Equity, Continued

Note 7 - Pension Plans, Continued

Deferred Outflows/Inflows of Resources Related to Pensions

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

	FRS		HIS	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ 3,433	\$ -	\$ 1,941	\$ (24)
Changes in Assumption	13,703	-	4,558	(2,390)
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	-	(69,867)	60	-
Changes in Proportion and Differences Between City Contributions and Proportionate Share of Contributions	14,711	(2,866)	11,662	(2,624)
City Contributions Subsequent to the Measurement Date	3,470	-	857	-
Total	\$ 35,317	\$ (72,733)	\$ 19,078	\$ (5,038)

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

C. Assets, Liabilities, Deferred Inflows (Outflows) of Resources, and Fund Equity, Continued

Note 7 - Pension Plans, Continued

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 2019 for the period July 1, 2013, through June 30, 2018. 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 plans is assumed at 2.40%. 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 6.80%. 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 2.16% was used to determine the total pension liability for the program (Bond Buyer General Obligation 20-Bond Municipal Bond Index). Mortality assumptions for the FRS Pension Plan were based on the PUB - 2010 base table, projected generationally with Scale MP- 2010, and mortality assumptions for the HIS Program were based on the Generational RP-2000 with Projection Scale BB tables.

The following changes in actuarial assumptions occurred in 2021:

- FRS: Decreasing the maximum amortization period to 20 years for all current and future amortization bases.
- HIS: The municipal bond rate used to determine the total pension liability decreased from 2.21% to 2.16%.

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

C. Assets, Liabilities, Deferred Inflows (Outflows) of Resources, and Fund Equity, Continued

Note 7 - Pension Plans, Continued

The long-term expected rate of return assumption of 6.80% used in GASB discount rate calculations consists of two building block components: 1) a long-term average annual inflation assumption of 2.40% as most recently adopted in October 2021 by the FRS Actuarial Assumption Conference; 2) an inferred real (in excess of inflation) return of 4.30%, which is consistent with the capital market outlook model developed during 2021 by the outside investment consultant to the Florida State Board of Administration. In the opinion of the FRS consulting actuary, Milliman, both components and the overall 6.80% return assumption were determined to be reasonable and appropriate per Actuarial Standards of Practice.

For reference, the table below contains a summary of Milliman's assumptions for each of the asset classes in which the plan was invested at that time based on the long-term target asset allocation. Each asset class assumption is based on a consistent set of underlying assumptions, and includes an adjustment for the inflation assumption. These assumptions are not based on historical returns, but instead are based on a forward-looking capital market economic model.

<u>Asset Class</u>	<u>Policy Allocation</u>	<u>Compound Annual Arithmetic Return</u>	<u>Annual (Geometric) Return</u>	<u>Annual Standard Deviation</u>
Cash Equivalents	1.0%	2.1%	2.1%	1.1%
Fixed Income	20.0%	3.8%	3.7%	3.3%
Global Equity	54.2%	8.2%	6.7%	17.8%
Real Estate	10.3%	7.1%	6.2%	13.8%
Private Equity	10.8%	11.7%	8.5%	26.4%
Strategic Investments	3.7%	5.7%	5.4%	8.4%
Assumed Inflation - Mean			2.4%	1.2%

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

C. Assets, Liabilities, Deferred Inflows (Outflows) of Resources, and Fund Equity, Continued

Note 7 - Pension Plans, Continued

Sensitivity Analysis

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:

	Current Discount		
	1% Decrease 5.8%	Rate 6.8%	1% Increase 7.8%
FRS			
City's Proportionate Net Pension Liability	89,560	20,028	(38,095)
HIS			
City's Proportionate Net Pension Liability	67,054	58,000	50,583

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: www.dms.myflorida.com.

Note 8 - Commitments and Contingencies

Amounts received or receivables from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the government expects such amounts, if any, to be immaterial.

Note 9 - Net Working Capital - Proprietary Fund

The net working capital (current assets less current liabilities) for the Proprietary Fund was \$47,844.

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

C. Assets, Liabilities, Deferred Inflows (Outflows) of Resources, and Fund Equity, Continued

Note 10 - Subsequent Events

Management has reviewed subsequent events and transactions that occurred after the balance sheet date through August 12, 2022. The financial statements include all events or transactions, including estimates, required to be recognized in accordance with accounting principles generally accepted in the United States of America. Management has determined that there are no non-recognized subsequent events that require additional disclosure except for those mentioned below.

REQUIRED SUPPLEMENTARY INFORMATION

**FLORIDA RETIREMENT SYSTEM AND HEALTH INSURANCE SUBSIDY PROGRAM
SCHEDULE OF CITY OF VERNON'S PROPORTIONATE SHARE OF NET PENSION LIABILITY
LAST 7 FISCAL YEARS***

FLORIDA RETIREMENT SYSTEM							
	2021	2020	2019	2018	2017	2016	2015
City's proportion of the Net Pension Liability	0.000265115%	0.000226510%	0.000198354%	0.000221493%	0.000221193%	0.000228712%	0.000244002%
City's proportionate share of the Net Pension Liability	\$ 20,026	\$ 98,173	\$ 68,310	\$ 66,715	\$ 65,427	\$ 57,750	\$ 31,516
City's covered-employee payroll	\$ 179,867	\$ 186,980	\$ 144,532	\$ 161,258	\$ 151,364	\$ 110,797	\$ 100,969
City's proportionate share of the Net Pension Liability as a percentage of its covered-employee payroll	11.13%	52.80%	47.26%	41.37%	43.22%	52.12%	31.21%
Plan fiduciary net position as a percentage of the total Pension Liability	96.40%	78.85%	82.61%	84.26%	83.89%	84.88%	92.00%
HEALTH INSURANCE SUBSIDY PROGRAM							
	2021	2020	2019	2018	2017	2016	2015
City's proportion of the Net Pension Liability	0.047283500%	0.000414600%	0.000390086%	0.000429444%	0.000221193%	0.000324901%	0.000327885%
City's proportionate share of the Net Pension Liability	\$ 58,000	\$ 50,622	\$ 43,647	\$ 45,453	\$ 37,556	\$ 37,866	\$ 33,439
City's covered-employee payroll	\$ 179,867	\$ 186,980	\$ 144,532	\$ 161,258	\$ 151,364	\$ 110,797	\$ 100,969
City's proportionate share of the Net Pension Liability as a percentage of its covered-employee payroll	32.25%	27.07%	30.20%	28.19%	24.81%	34.18%	33.12%
Plan fiduciary net position as a percentage of the total Pension Liability	3.56%	3.00%	2.63%	2.15%	1.64%	0.97%	0.50%

*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 only for the years for which information is available.

**FLORIDA RETIREMENT SYSTEM AND HEALTH INSURANCE SUBSIDY PROGRAM
SCHEDULE OF CITY OF VERNON'S CONTRIBUTIONS
LAST 7 FISCAL YEARS***

FLORIDA RETIREMENT SYSTEM							
	2021	2020	2019	2018	2017	2016	2015
Contractually required contributions	\$ 10,745	\$ 7,525	\$ 6,280	\$ 6,418	\$ 6,139	\$ 5,578	\$ 5,949
Contributions in relation to the contractually required contribution	(10,745)	(7,525)	(6,280)	(6,418)	(6,139)	(5,578)	(5,949)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 179,867	\$ 186,980	\$ 144,532	\$ 161,258	\$ 151,364	\$ 110,797	\$ 100,969
Contributions as a percentage of covered-employee payroll	5.97%	4.02%	4.35%	3.98%	4.06%	5.03%	5.89%
HEALTH INSURANCE SUBSIDY PROGRAM							
	2021	2020	2019	2018	2017	2016	2015
Contractually required contributions	\$ 2,872	\$ 2,389	\$ 2,356	\$ 2,391	\$ 2,022	\$ 1,665	\$ 1,253
Contributions in relation to the contractually required contribution	(2,872)	(2,389)	(2,356)	(2,391)	(2,022)	(1,665)	(1,253)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 179,867	\$ 186,980	\$ 144,532	\$ 161,258	\$ 151,364	\$ 110,797	\$ 100,969
Contributions as a percentage of covered-employee payroll	1.60%	1.28%	1.63%	1.48%	1.34%	1.50%	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 only for the years for which information is available.

COMPLIANCE SECTION



PO Box 6356
Dothan, Alabama 36302

**Independent Accountant's Report on Compliance with Section 218.415,
Florida Statutes, *Local Government Investment Policies***

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

We have examined the compliance of the City of Vernon, Florida with Section 218.415, Florida Statutes for the year ended September 30, 2021. 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, *Local Government Investment Policies*, for the year ended September 30, 2021.

This report is intended solely for the information and use of management and the State of Florida Auditor General and is not intended to be and should not be used by anyone other than these specified parties.

McDaniel & Associates, P.C.
Dothan, Alabama
August 12, 2022



PO Box 6356
Dothan, Alabama 36302

**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 Members of the City Council
City of Vernon
Vernon, Florida

We have audited, 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, the financial statements of the governmental activities and each major fund of City of Vernon as of and for the year ended September 30, 2021, and the related notes to the financial statements, which collectively comprise City of Vernon's basic financial statements, and have issued our report thereon dated August 12, 2022.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Vernon's internal control over financial reporting (internal control) as a basis for designing 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 City of Vernon's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Vernon'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 and responses as items 2003-002 and 2007-001 (all repeat) that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Vernon'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 financial statements. 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 and responses as items 2014-001 and 2014-002 (all repeat).

City of Vernon's Response to Findings

City of Vernon's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. City of Vernon'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.

McDaniel & Associates, P.C.

Dothan, Alabama
August 12, 2022

SCHEDULE OF FINDINGS

**CITY OF VERNON
VERNON, FLORIDA
SCHEDULE OF FINDINGS AND RESPONSES
SEPTEMBER 30, 2021**

Item 2003-002 - Segregation of Duties (Repeat)

Criteria - Duties should be segregated to provide reasonable assurance that transactions are handled appropriately.

Condition - There is a lack of segregation of duties among the Town's personnel.

Effect - Transactions could be mishandled.

Cause - There are a limited number of personnel for certain functions and procedures have not been implemented to create proper segregation of duties.

Recommendation- Procedures should be put in place to ensure that duties are separated as much as possible. Alternative controls should be used to compensate for lack of separation.

Response - The City agrees with this finding. However, due to the additional expense required to establish proper segregation of duties, a recommendation to correct this weakness is cost prohibitive.

Item 2007-001 - Financial Statement Preparation Knowledge (Repeat)

Criteria - The City should obtain sufficient knowledge in order to prepare financial statements including full note disclosures in accordance with accounting principles generally accepted in the United States of America.

Condition - The City lacks sufficient knowledge to effectively prepare financial statements and related notes.

Effect - Financial statement preparation and the review process could be insufficient.

Cause - There are a limited number of training opportunities in order to further the City's knowledge of preparing financial statements and full note disclosures in accordance with accounting principles generally accepted in the United States of America.

**CITY OF VERNON
VERNON, FLORIDA
SCHEDULE OF FINDINGS AND RESPONSES
SEPTEMBER 30, 2021**

Item 2007-001 - Financial Statement Preparation Knowledge (Repeat) (Continued)

Recommendation - The City should increase their knowledge of the applicable standards to sufficiently allow them to prepare financial statements including full note disclosures.

Response - The City agrees with this finding and is currently working to increase their knowledge of the applicable standards in order to prepare financial statements including full note disclosures.

Item 2014-001 - Timeliness of Submission of Audit Report (Repeat)

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 not file their audit report with the Florida Auditor General within nine months after the end of the audit period as required by Florida Statute 218.39(1).

Effect - The City is in violation of Florida Statute 218.39(1).

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.

**CITY OF VERNON
VERNON, FLORIDA
SCHEDULE OF FINDINGS AND RESPONSES
SEPTEMBER 30, 2021**

Item 2014-002 - Violation of Capital Improvement Revenue Bond Ordinance (Repeat)

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.



PO Box 6356
Dothan, Alabama 36302

Independent Auditor's Report to Management

Honorable Mayor and Members of the City Council
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, 2021, and have issued our report thereon dated August 12, 2022.

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 Responses; 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 August 12, 2022, should be considered in conjunction with this management letter.

Prior Audit Findings

Section 10.554(1)(i)l., 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 annual 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#	2019-20 FY Finding#	2018-19 FY Finding#
2012-002	2012-002	2012-002
		2019-001

The schedule of findings items are as follows:

Tabulation of Uncorrected Audit Findings		
Current Year Finding#	2019-20 FY Finding#	2018-19 FY Finding#
2003-002	2003-002	2003-002
2007-001	2007-001	2007-001
2014-001	2014-001	2014-001
2014-002	2014-002	2014-002

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 Current 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.

Current Year Findings

2012-002 (Repeat)

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.

McDaniel & Associates, P.C.

Dothan, Alabama
August 12, 2022



BEFORE ME, the undersigned authority, personally appeared City of Vernon, who being duly sworn, deposes and says on oath that:

1. I am the Mayor of the City of Vernon which is a local government of the State of Florida;
2. City of Vernon adopted Ordinance No. 10-193 implementing an impact fee; and
3. City of Vernon has complied and, as of the date of this Affidavit, remains in compliance with Section 163.31801, Florida Statutes.

FURTHER AFFIANT SAYETH NAUGHT.

Doug R. Owen
Mayor

STATE OF FLORIDA
COUNTY OF Washington

SWORN TO AND SUBSCRIBED before me this 9th day of September, 2022.

Karen L White
NOTARY PUBLIC

Print Name Karen White

Personally known or produced identification _____

Type of identification produced: _____

My Commission Expires:
07/22/2023

