

**TOWN OF VERNON
WAUKESHA COUNTY, WISCONSIN**

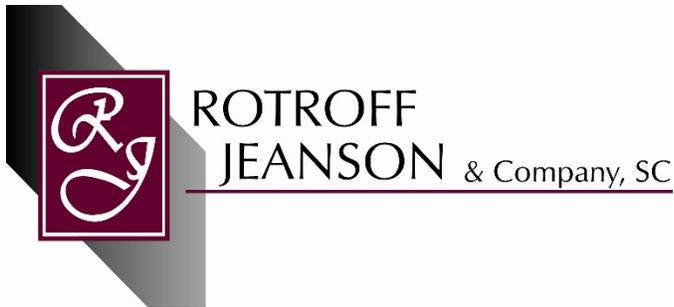
**FINANCIAL STATEMENTS
DECEMBER 31, 2015**

TOWN OF VERNON

TABLE OF CONTENTS

Year Ended December 31, 2015

<u>Basic Financial Statements</u>	<u>Page</u>
Independent auditors' report	1
Government-Wide Financial Statements:	
Statement of net position	3
Statement of activities	4
Fund Financial Statements:	
Governmental funds:	
Balance sheet	5
Reconciliation of the balance sheet to the statement of net position	6
Statement of revenues, expenditures and changes in fund balances	7
Reconciliation of the statement of revenues, expenditures and changes in fund balances to the statement of activities	8
Agency Fund:	
Statement of fiduciary net position	9
Notes to financial statements	10
<u>Required Supplementary Information</u>	
General Fund:	
Budgetary comparison statement	30
Wisconsin Retirement System:	
Schedule of the Town's proportionate share of the net pension asset	31
Schedule of pension contributions – Last three fiscal years	31
Note to required supplementary information	32
<u>Supporting Schedules</u>	
Non-Major Governmental Funds	
Combining balance sheet	33
Combining statement of revenues, expenditures and changes in fund balances	34



Independent Auditors' Report

Town Board
Town of Vernon
Waukesha County, Wisconsin

Dear Board Members:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Vernon, Wisconsin as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' 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. 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 auditors' 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, each major fund, and the aggregate remaining fund information of the Town of Vernon, Wisconsin as of December 31, 2015, and the respective changes in financial position and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 5 C., the Town adopted Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* effective January 1, 2015. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information and the schedules of the Town's proportionate share of net pension asset and employer pension contributions – Wisconsin Retirement System on pages 30 - 32 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 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 statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Vernon, Wisconsin's basic financial statements. The combining fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.



TOWN OF VERNON
STATEMENT OF NET POSITION
Governmental Activities
December 31, 2015

Assets:	
Current assets:	
Cash and cash equivalents	\$ 1,745,137
Receivables:	
Property taxes	859,503
Other (net)	33,500
Prepaid expenses	8,315
Supplies inventory	119,916
Non-current assets:	
Restricted:	
Cash and cash equivalents	240,922
Net pension asset	117,163
Fixed assets:	
Non-depreciable:	
Land	534,721
Depreciable:	
Capital assets, net of accumulated depreciation	4,862,077
Total assets	<u>8,521,254</u>
Deferred Outflows of Resources:	
Deferred outflows related to pensions	<u>118,587</u>
Liabilities:	
Current liabilities:	
Accounts payable	81,842
Other accrued liabilities	33,754
Unearned revenue	441,093
Current portion of long-term obligations	154,063
Non-current liabilities:	
Non-current portion of long-term obligations	756,977
Total liabilities	<u>1,467,729</u>
Deferred Inflows of Resources:	
Subsequent year's tax levy	1,703,640
Stormwater fees	53,841
Total deferred inflows of resources	<u>1,757,481</u>
Net Position:	
Net investment in capital assets	4,918,324
Restricted	373,448
Unrestricted	122,859
Total net position	<u>\$ 5,414,631</u>

The accompanying notes are an integral part of these financial statements

TOWN OF VERNON
STATEMENT OF ACTIVITIES
Governmental Activities
Year Ended December 31, 2015

		Program Revenues				
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions		Net (Expense) Revenue and Changes in Net Position
Primary government:						
Direct expenses:						
General government	\$ 491,741	44,230	-	-		(447,511)
Public safety	1,065,208	263,733	28,918	-		(772,557)
Public works	915,984	53,106	163,939	-		(698,939)
Health and human services	440,393	409,927	21,718	-		(8,748)
Culture, education and recreation	129,269	89,245	-	37,000		(3,024)
Indirect expenses:						
Interest and other related charges	18,346	-	-	-		(18,346)
Total primary government	\$ 3,060,941	860,241	214,575	37,000		(1,949,125)
General revenues:						
					\$	
Property taxes						1,674,399
Grants not restricted to specific programs						108,893
Cell tower rental						47,193
Interest earnings						4,137
Miscellaneous						12,982
						1,847,604
						(101,521)
						5,516,152
					\$	5,414,631

The accompanying notes are an integral part of these financial statements

TOWN OF VERNON
BALANCE SHEET
Governmental Funds
December 31, 2015

	General Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Assets:				
Cash and cash equivalents	\$ 1,429,157	130,307	185,673	1,745,137
Receivables:				-
Taxes	753,510	84,772	21,221	859,503
Accounts	24,939	-	-	24,939
Prepaid expenditures	8,315	-	-	8,315
Inventory of supplies	119,916	-	-	119,916
Restricted assets:				
Cash and cash equivalents	240,922	-	-	240,922
Total assets	\$ 2,576,759	215,079	206,894	2,998,732
Liabilities, Deferred Inflows of Resources and Fund Balance:				
Liabilities:				
Accounts payable	\$ 81,842	-	-	81,842
Accrued payroll	15,788	-	-	15,788
Other accrued liabilities	15,877	-	-	15,877
Unearned revenue	441,093	-	-	441,093
Total liabilities	554,600	-	-	554,600
Deferred Inflows of Resources:				
Subsequent year's tax levy	1,488,561	215,079	-	1,703,640
Stormwater fees	-	-	53,841	53,841
Total deferred inflows of resources	1,488,561	215,079	53,841	1,757,481
Fund Balance:				
Nonspendable	128,231	-	-	128,231
Restricted	240,922	-	137,698	378,620
Committed	-	-	15,355	15,355
Unassigned	164,445	-	-	164,445
Total fund balance	533,598	-	153,053	686,651
Total liabilities, deferred inflows of resources and fund balance	\$ 2,576,759	215,079	206,894	2,998,732

The accompanying notes are an integral part of these financial statements

TOWN OF VERNON
RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET POSITION
Governmental Funds
December 31, 2015

Total fund balances - governmental funds	\$	686,651
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Certain accounts receivable are not available soon enough after year-end to pay for the current year's expenditures, and therefore are not reported in the governmental funds		8,561
The net pension asset does not relate to current financial resources and is not reported in the governmental funds.		117,163
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds:		
Governmental capital assets	\$ 9,905,446	
Less: Accumulated depreciation	<u>(4,508,648)</u>	5,396,798
Deferred outflows of resources related to pensions are applicable to future periods and therefore are not reported in the governmental funds.		118,587
Interest payable used in the governmental activities are not payable from current resources and therefore are not reported in the governmental funds.		(2,089)
Accrued compensated absences are not due and payable in the current period and therefore are not reported in the governmental funds.		(99,452)
Long-term liabilities are not due and payable in the current year and therefore are not reported in the governmental funds.		<u>(811,588)</u>
Total net position - governmental activities	\$	<u><u>5,414,631</u></u>

The accompanying notes are an integral part of these financial statements

TOWN OF VERNON
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
Governmental Funds
Year Ended December 31, 2015

	General Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$ 1,468,779	205,620	-	1,674,399
Intergovernmental	360,468	-	-	360,468
Regulation and compliance	99,694	-	-	99,694
Charges for services	704,660	-	50,579	755,239
Interest	3,877	-	260	4,137
Miscellaneous	60,962	-	-	60,962
	2,698,440	205,620	50,839	2,954,899
Expenditures:				
Current:				
General government	480,151	-	-	480,151
Public safety	743,933	-	-	743,933
Public works	710,775	-	57,149	767,924
Health and human services	440,393	-	-	440,393
Culture, recreation and education	175,109	-	-	175,109
Capital outlays	38,890	-	-	38,890
Debt service:				
Principal	-	502,045	-	502,045
Interest	-	31,549	-	31,549
	2,589,251	533,594	57,149	3,179,994
Excess (deficiency) of revenues over expenditures	109,189	(327,974)	(6,310)	(225,095)
Other Financing Sources:				
Face amount of long-term debt	284,814	319,347	-	604,161
Transfers in	-	8,627	-	8,627
Transfers out	(8,627)	-	-	(8,627)
	276,187	327,974	-	604,161
Excess (deficiency) of revenues and other financing sources over expenditures	385,376	-	(6,310)	379,066
Fund balance:				
January 1	148,222	-	159,363	307,585
December 31	\$ 533,598	-	153,053	686,651

The accompanying notes are an integral part of the financial statements

TOWN OF VERNON
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
Governmental Funds
Year Ended December 31, 2015

Net change in fund balances - total governmental funds	\$	379,066
Amounts reported for governmental activities in the Statement of Activities are different because:		
Certain accounts receivable are not available soon enough after year-end to pay for the current year's expenditures, and therefore are not reported in the governmental funds		2,521
Governmental funds report pension contributions as expenditures. In the Statement of Activities, however, the cost of pension benefits earned net of employee contributions is reported as pension expense.		(5,277)
Capital outlays are reported in governmental funds as expenditures. In the Statement of Activities, however, the cost of those assets is depreciated over their estimated useful lives. This is the amount by which depreciation expenses (\$658,130) exceeds capital asset purchases (\$267,796)		(390,334)
Interest on long-term debt is recognized as an expenditure in the funds when it is due. In the Statement of Activities, however, interest expense is recognized as it accrues.		13,203
Compensated absences not payable from current year resources are not reported as expenditures of the current year. In the Statement of Activities, however, these costs are current year expenses.		1,416
Note proceeds provide current financial resources to government funds but issuing debt increases long-term liabilities in the Statement of Net Position.		(604,161)
Repayment of long-term debt obligations is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.		<u>502,045</u>
Change in net position of governmental activities	\$	<u><u>(101,521)</u></u>

The accompanying notes are an integral part of these financial statements

TOWN OF VERNON
STATEMENT OF FIDUCIARY NET POSITION
Agency Fund
December 31, 2015

Assets:	
Cash and investments	\$ 5,865,831
Taxes receivable	<u>3,779,165</u>
Total assets	<u>\$ 9,644,996</u>
Liabilities:	
Due to other taxing units:	
School districts	\$ 7,534,441
Waukesha County	1,913,549
State of Wisconsin	140,330
Deposits:	
Occupancy	24,750
Culvert	9,625
Cable TV	<u>22,301</u>
Total liabilities	<u>\$ 9,644,996</u>

The accompanying notes are an integral part of the financial statements

**TOWN OF VERNON
NOTES TO FINANCIAL STATEMENTS**

NOTE	Page
I. Summary of Significant Accounting Policies	
A. Reporting Entity	11
B. Government-Wide and Fund Financial Statements	11
C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation	12
D. Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position or Equity	
1. Deposits and Investments	13
2. Receivables	14
3. Inventories and Prepaid Items	15
4. Restricted Assets	15
5. Capital Assets	15
6. Deferred Outflows/Inflows of Resources	16
7. Compensated Absences	16
8. Long-Term Obligations	17
9. Claims and Judgments	17
10. Equity Classifications	17
11. Use of Estimates	18
2. Reconciliation of Government-Wide and Fund Financial Statements	
A. Explanation of Certain Differences between the Governmental Fund Balance Sheet and the Government-Wide Statement of Net Position	19
B. Explanation of Certain Differences between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-Wide Statement of Activities	19
3. Stewardship, Compliance, and Accountability	
A. Limitations of the Town's Tax Levy	20
4. Detailed Notes on All Funds	
A. Deposits	20
B. Receivables	21
C. Capital Assets	22
D. Payables	22
E. Long-Term Obligations	23
F. Interfund Transfers	23
G. Lease Agreements	24
H. Governmental Activities Net Position/Fund Balances	24
5. Other Information	
A. Defined Benefit Pension Plan	25
B. Risk Management	29
C. Cumulative Effect of Change in Accounting Principle	29
D. Subsequent Events	29

**TOWN OF VERNON
NOTES TO FINANCIAL STATEMENTS**

(1) Summary of Significant Accounting Policies

The accounting and reporting policies of the Town of Vernon included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America 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 following is a summary of the more significant accounting policies:

A. Reporting Entity

This report includes all of the funds of the Town of Vernon. The reporting entity for the Town consists of the primary government, organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The primary government is financially accountable if it appoints a voting majority of the organization's governing body and is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to or burdens on the primary government. The primary government may be financially accountable if an organization is fiscally dependent on the primary government. This report does not contain any component units.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The statement of net position and statement of activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment, are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. The Town does not allocate indirect expenses to functions in the statement of activities. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not included among program revenues are reported instead as general revenues. Internally dedicated resources are reported as general revenues rather than as program revenues.

Fund Financial Statements

The accounts of the Town are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund equity, revenues and expenditures. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported in separate columns in the fund financial statements.

Funds are organized as major funds or non-major funds within the governmental statements. An emphasis is placed on major funds within the governmental category.

**TOWN OF VERNON
NOTES TO FINANCIAL STATEMENTS**

(1) Summary of Significant Accounting Policies - Continued

B. Government-Wide and Fund Financial Statements - continued

Fund Financial Statements - continued

A fund is considered major if it is the primary operating fund of the Town or meets the following criteria:

- a. Total assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues, or expenditures/expenses of that individual fund is at least 10 percent of the corresponding total for all funds of that category or type, and
- b. The same element of the individual fund that met the 10 percent test is at least 5 percent of the corresponding total for all funds combined.
- c. In addition, any other fund that the Town believes is particularly important to financial statement users may be reported as a major fund.

The Town reports the following major governmental funds:

General Fund – The general fund accounts for the Town’s primary operating activities. It is used to account for all financial resources except those required to be accounted for in another fund.

Debt Service Fund – The debt service fund accounts for resources accumulated and payments made for principal and interest on long-term debt, other than enterprise debt.

The Town reports the following non-major governmental funds:

Special Revenue Funds – The special revenue funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specific purposes and include:

Fire Department Fund
Park Fund
Stormwater Fund

In addition, the Town reports the following fund type:

Agency Fund – The agency fund accounts for assets held by the Town in a trustee capacity or as an agent for individuals, private organizations, and/or other governmental units.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-Wide Financial Statements

The government-wide statement of net position and statement of activities are reported using the economic resources measurement focus and the accrual basis of accounting. Accordingly, all the Town’s assets, deferred outflows of resources, liabilities and deferred inflows of resources, including capital assets and long-term liabilities, are included in the accompanying Statement of Net Position.

Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

**TOWN OF VERNON
NOTES TO FINANCIAL STATEMENTS**

(1) Summary of Significant Accounting Policies - Continued

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation - continued

Government-Wide Financial Statements - continued

Property taxes are recognized as revenues in the year for which they are levied. Taxes receivable for the following year are recorded as receivables and deferred inflows of resources. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider are met.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the Town considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on long-term debt, claims, and judgments, which are recorded as a fund liability when expected to be paid with expendable available financial resources. Property taxes are recorded in the year levied as receivables and deferred inflows of resources. They are recognized as revenues in the succeeding year when services financed by the levy are being provided.

Intergovernmental aids and grants are recognized as revenues in the period the Town is entitled to the resources and the amounts are available. Amounts owed to the Town but not available are recorded as receivables and deferred inflows of resources. Amounts received prior to the entitlement period are recorded as current liabilities. Revenues susceptible to accrual include property taxes, charges for services, fines and forfeitures, inspection fees, and interest.

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position or Equity

1. Deposits and Investments

Wisconsin municipalities are authorized by statute to invest idle funds in the following institutions and investments:

- a. Time deposits in any credit union, bank, savings bank, trust company or savings and loan association, which is authorized to transact business in this state if the time deposits mature in not more than 3 years.
- b. Bonds or securities issued or guaranteed as to principal and interest by the federal government or by a commission, board or other instrumentality of the federal government.
- c. Bonds or securities of any county, city, drainage district, technical college district, village, town or school district of this state.
- d. Bonds issued by a local exposition district, local professional baseball park district, local professional football stadium district or local cultural arts district.

**TOWN OF VERNON
NOTES TO FINANCIAL STATEMENTS**

(1) Summary of Significant Accounting Policies - Continued

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position or Equity - continued

1. Deposits and Investments - continued

- e. Bonds issued by the University of Wisconsin Hospitals and Clinics Authority or the Wisconsin Aerospace Authority.
- f. Any security which matures or which may be tendered for purchase at the option of the holder within not more than 7 years of the date on which it is acquired, if that security has a rating which is the highest or 2nd highest rating category assigned by Standard & Poor's corporation, Moody's investors service or other similar nationally recognized rating agency or if that security is senior to, or on a parity with, a security of the same issuer which has such a rating.
- g. Securities of an open-end management investment company or investment trust, if the investment company or investment trust does not charge a sales load, if the investment company or investment trust is registered under the investment company act of 1940, 15 USC 80a-1 to 80a-64, and if the portfolio of the investment company or investment trust is limited to the following:
 - 1. Bonds and securities issued by the federal government or a commission, board or other instrumentality of the federal government.
 - 2. Bonds that are guaranteed as to principal and interest by the federal government or a commission, board or other instrumentality of the federal government.
 - 3. Repurchase agreements fully collateralized by bonds or securities under (g) 1 or 2.
- h. Bonds or securities issued under the authority of the municipality, whether the bonds or securities create a general municipality liability or a liability of the property owners of the municipality for special improvements, and may sell or hypothecate the bonds or securities.
- i. The Local Government Pooled Investment Fund.
- j. Repurchase agreements with public depositories, if federal bonds or securities secure the agreement.

Investments made during 2015 were held in the Town's name and were in accordance with those allowable by state statutes.

2. Receivables

Property taxes are levied in December on the assessed value as of the prior January 1. In addition to property taxes for the Town, taxes are collected for and remitted to the state and county governments as well as the local school district and technical college district. Taxes for all state and local governmental units billed in the current year for the succeeding year are reflected as receivables and due to other taxing units on the accompanying agency fund balance sheet.

**TOWN OF VERNON
NOTES TO FINANCIAL STATEMENTS**

(1) Summary of Significant Accounting Policies - Continued

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position or Equity - continued

2. Receivables - continued

Property tax calendar – 2015 tax roll:

Levy:

Tax lien and levy date	December 2015
Tax bills mailed	December 2015

Due dates:

Real property taxes:

Payment in full or first installment	January 31, 2016
Second installment payable to County	July 31, 2016

Personal property taxes, special assessments and special charges, in full	January 31, 2016
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Tax settlements with taxing jurisdictions:

First settlement	January 15, 2016
Second settlement	February 20, 2016
Final settlement	August 20, 2016

Tax sale - 2015 delinquent real estate taxes	October 2018
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Delinquent real estate taxes as of July 31 are paid in full by Waukesha County, which assumes their collection. The Town maintains responsibility for collection of delinquent personal property taxes.

3. Inventories and Prepaid Items

Governmental fund inventories are valued at cost on a first in, first out basis. Inventory in the general fund consists of expendable supplies held for consumption. Costs are recorded as expenditures at the time individual inventory items are consumed. Reported inventories are offset as nonspendable fund balance, which indicates that they do not constitute "available spendable resources" even though they are a component of net position.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4. Restricted Assets

Mandatory segregations of assets are presented as restricted assets. Such segregations are required by debt agreements. They also include the net pension asset which must be used to fund employee benefits.

5. Capital Assets

Government-Wide Statements

In the government-wide financial statements, fixed assets are accounted for as capital assets. Capital assets are defined by the government as assets with an initial cost of more than \$5,000 and an estimated useful life in excess of one year. All capital assets are valued at historical cost or estimated historical cost if actual amounts are unavailable. Donated fixed assets are recorded at their estimated fair value at the date of donation.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the statement of activities, with accumulated depreciation reflected in the statement of net position. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation.

**TOWN OF VERNON
NOTES TO FINANCIAL STATEMENTS**

(1) Summary of Significant Accounting Policies - Continued

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position or Equity - continued

5. Capital Assets - continued

Government-Wide Statements – continued

The range of estimated useful lives by type of asset is as follows:

Buildings and improvements	10-50 Years
Land improvements	25-30 Years
Machinery and equipment	5-35 Years
Infrastructure	15-20 Years

Prior to 2004, infrastructure assets of governmental funds were not capitalized. Upon implementing GASB 34, governmental units were required to account for all capital assets, including infrastructure, in the government-wide statements. As allowed under the reporting standards the Town elected to report its infrastructure prospectively from the date of implementation.

Fund Financial Statements

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

6. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position or fund balance that applies to a future period and thus, will not be recognized as an outflow of resources (expenditure) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section of deferred inflows of resources. This separate financial statement element represents an acquisition of net position or fund balance that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

For purposes of measuring the net pension asset, deferred outflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Wisconsin Retirement System (WRS) and additions to/deductions from WRS' fiduciary net position have been determined on the same basis as they are reported by WRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

7. Compensated Absences

Under terms of employment, employees are granted personal leave and vacation in varying amounts. Only benefits considered to be vested are disclosed in these statements.

The Town's vacation leave policy allows regular full-time employees to accrue vacation benefits after one year of service. Vacation leave accrues to a maximum of four weeks based upon each employee's length of service. Vacation leave must be used or paid out in the year in which it is earned.

**TOWN OF VERNON
NOTES TO FINANCIAL STATEMENTS**

(1) Summary of Significant Accounting Policies - Continued

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position or Equity - continued

7. Compensated Absences - continued

All eligible full time employees earn forty-eight hours of paid personal time during the calendar year. Personal time may be used for any period of absence from employment. Unused personal time does not carryover beyond the calendar year end and will be paid out at the current wage rates on the last pay period in the year.

Prior to January 1, 2015 eligible employees earned eight hours of sick leave per month of service and were allowed to accumulate up to 960 hours. The remaining balance of sick leave is available for future benefit and upon termination employees are entitled to receive payment for the unused hours. A liability is recorded to the extent that it is estimated to result in termination payments. Accumulated sick leave liabilities are determined on the basis of current salary rates and include salary related benefits.

In the governmental fund financial statements vested sick pay is accrued only to the extent that it is expected to utilize current financial resources.

8. Long-Term Obligations

All long-term obligations to be repaid with governmental resources are reported as liabilities in the government-wide statements. The long-term obligations consist of notes payable. Long-term obligations of governmental funds are not reported as liabilities in the fund financial statements. The face value of debts (plus any premiums) is reported as other financing sources and payments of principal and interest are reported as expenditures.

9. Claims and Judgments

Claims and judgments are recorded as liabilities if all of the conditions of Governmental Accounting Standards Board pronouncements are met. Claims and judgments that would normally be liquidated with expendable available financial resources are recorded during the year as expenditures in the governmental funds. If they are not to be liquidated with expendable available financial resources, no liability is recognized in the governmental fund statements. The related expenditure is recognized when the liability is liquidated. Claims and judgments are recorded in the government-wide statements as expenses when the related liabilities are incurred. There were no significant claims or judgments at year end.

10. Equity Classifications

Government-Wide Statements

Equity is classified as net position and displayed in three components:

- a. Net investment in capital assets – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted – Consists of net position with constraints placed on their use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments or, (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted – All other net positions that do not meet the definition of “net investment in capital assets” or “restricted”.

**TOWN OF VERNON
NOTES TO FINANCIAL STATEMENTS**

(1) Summary of Significant Accounting Policies - Continued

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position or Equity - continued

10. Equity Classifications - continued

Fund Statements

Governmental fund equity is classified as fund balance. In accordance with Governmental Standards Board Statement No. 54 fund balance is further categorized into five classifications based on the constraints imposed on the use of these resources. These five classifications are nonspendable, restricted, committed, assigned or unassigned.

Nonspendable fund balance includes amounts that cannot be spent because they are either not in spendable form – prepaids or inventories; or are legally or contractually required to be maintained intact. The spendable portion of the fund balance comprises the remaining four classifications: restricted, committed, assigned, and unassigned.

- a. Restricted - This classification reflects the constraints imposed on resources externally by creditors, grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation.
- b. Committed - These amounts can only be used for specific purposes pursuant to constraints imposed by formal resolutions or ordinances of the Town Board, the government's highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the Town Board removes the specified use by taking the same type of action imposing the commitment. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.
- c. Assigned - This classification reflects the amounts constrained by the Town's intent to be used for a specific purpose, but are neither restricted nor committed. The Town Board has the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as nonspendable and are neither restricted nor committed.
- d. Unassigned - This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

The Town has not adopted a fund balance spend-down policy regarding the order in which fund balance will be utilized. In these circumstances GASB Statement No. 54 indicates that restricted funds are to be spent first, followed by committed funds, and then assigned funds. Unassigned funds would be spent last.

11. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles require management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

**TOWN OF VERNON
NOTES TO FINANCIAL STATEMENTS**

(2) Reconciliation of Government-Wide and Fund Financial Statements

A. Explanation of Certain Differences between the Governmental Fund Balance Sheet and the Government-Wide Statement of Net Position

The financial statements include reconciliation between fund balance – total governmental funds as reported in the governmental fund balance sheet and net position – governmental activities as reported in the government-wide statement of net position.

Certain accounts receivable totaling \$8,561, were not available soon enough after year-end to pay for the current year's expenditures and therefore are not reported in the governmental funds.

Capital assets net of accumulated depreciation of \$5,396,798 used in governmental funds are not financial resources and, therefore, are not reported in the funds.

Certain liabilities applicable to the Town's governmental activities are not due and payable in the current period, and accordingly, are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities, both current and long-term, are reported in the statement of net position.

G.O. promissory notes payable	\$ 811,588
Accrued compensated absences	99,452
Accrued interest	<u>2,089</u>
	<u>\$ 913,129</u>

The net pension asset of \$117,163 and related deferred outflows of resources of \$118,587 are not current financial resources and, therefore, are not reported in the funds.

B. Explanation of Certain Differences between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government - Wide Statement of Activities

The financial statements include reconciliation between net change in fund balances – total governmental funds as reported in the statement of revenues, expenditures and changes in fund balances and change in net position of governmental activities as reported in the government-wide statement of activities.

A significant element of the reconciliation is the purchase of long-term capital assets and the repayment of long-term debt both of which consume current financial resources of governmental funds. These are not considered current year expenditures in the government-wide statement of activities.

Capital asset purchases	\$ 267,796
Principal repayments	<u>502,045</u>
	<u>\$ 769,841</u>

Certain expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. The details of this difference are as follows:

Depreciation expense	\$ 658,130
Decrease in net pension asset	78,540
Increase in deferred outflows of resources related to pensions	(73,263)
Decrease in accrued interest payable	(13,203)
Decrease in long-term accrued compensated absences	<u>(1,416)</u>
	<u>\$ 648,788</u>

**TOWN OF VERNON
NOTES TO FINANCIAL STATEMENTS**

(2) Reconciliation of Government-Wide and Fund Financial Statements - Continued

B. Explanation of Certain Differences between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government - Wide Statement of Activities - continued

Promissory note proceeds of \$604,161 provide financial resources in the governmental funds but increase long-term liabilities in the statement of net position.

The final element of the reconciliation relates to revenues that are reported in the statement of activities but do not provide financial resources in the current year for the governmental funds, totaling \$2,521.

(3) Stewardship, Compliance, and Accountability

A. Limitations of the Town's Tax Levy

Wisconsin Statute 66.0602 limits the Town's property tax levy, with exceptions, to its prior tax levy, increased by the percentage change in the Town's equalized value due to new construction. Changes in debt service from one year to the next are generally exempt from this limit.

(4) Detailed Notes on All Funds

A. Deposits

The Town's deposits at December 31, 2015 were comprised of the following:

	<u>Carrying Value</u>	<u>Bank and Investment Balances</u>	<u>Associated Risks</u>
Deposits	\$ 7,851,690	7,905,842	Custodial credit risk
Petty cash	200	200	
	<u>\$ 7,851,890</u>	<u>7,906,042</u>	

The difference between the carrying value and bank balance is due to outstanding checks. Reconciliation of the carrying values of the deposits and investments to the statement of net position and statement of fiduciary assets is as follows:

Per Statement of Net Position	
Unrestricted	\$ 1,745,137
Restricted	240,922
Per Statement of Fiduciary Net Position	<u>5,865,831</u>
	<u>\$ 7,851,890</u>

At December 31, 2015, idle funds were invested in time and demand deposits of authorized depositories. Such deposits and investments are insured in any one depository institution through federal depository insurance funds. Insurance coverage for governmental depositories depends upon the type of deposit and the location of the insured depository institution.

**TOWN OF VERNON
NOTES TO FINANCIAL STATEMENTS**

(4) Detailed Notes on All Funds - Continued

A. Deposits - continued

All time and savings deposits owned by the Town and held by the Town's official custodian in an insured depository institution within the State of Wisconsin are combined and insured up to \$250,000. All demand deposits owned by the Town and held by the Town's official custodian in an insured depository institution within the State of Wisconsin are combined and insured up to \$250,000. For the purpose of these rules, the term 'time and savings deposits' includes NOW accounts and money market deposit accounts.

The term 'demand deposits' means both interest bearing and non-interest bearing deposits that are payable on demand and for which the depository institution does not reserve the right to require advance notice of an intended withdrawal. For accounts held by the Town located outside the State of Wisconsin, all time, savings, and demand deposits are combined within each depository institution and insured up to \$250,000.

In addition to FDIC insurance, there is insurance currently available through the State of Wisconsin depository insurance program, which would provide a maximum of \$400,000 of insurance on deposits in any one institution. The amount available to fund the entire Wisconsin program is limited and, therefore, the actual benefits available at a time of claim would depend upon the remaining balance in the state fund.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the Town's deposits may not be returned to it. As of December 31, 2015, all of the Town's bank balance was collateralized with financial institutions in excess of federal depository insurance limits.

Fluctuating cash flows during January and December, due to tax collections, result in temporary cash and investment balances, which significantly exceed insured amounts, until settlement with the respective taxing jurisdictions during the following month. The Town does not have a deposit policy for custodial credit risk.

B. Receivables

Governmental fund financial statements report deferred inflow of resources in connection with receivables not considered available to liquidate liabilities of the current period. Property taxes levied for the subsequent year are not earned and cannot be used to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

At the end of the current fiscal year, the various components of the Town's receivables included deferred inflows of resources reported in the governmental fund financial statements as follows:

	<u>Unearned</u>	<u>Unavailable</u>	<u>Total</u>
Current year receivables:			
General fund	\$ 753,510	-	753,510
Debt service fund	84,772	-	84,772
Stormwater fund	<u>21,221</u>	-	<u>21,221</u>
	<u>\$ 859,503</u>	<u>-</u>	<u>859,503</u>

In addition, other receivables are reported in the government-wide financial statements net of the amount estimated to be uncollectible of \$33,420.

**TOWN OF VERNON
NOTES TO FINANCIAL STATEMENTS**

(4) Detailed Notes on All Funds - Continued

C. Capital Assets

Capital asset activity in the governmental activities for the year ended December 31, 2015 was as follows:

	Balance <u>12/31/14</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>12/31/15</u>
Capital Assets Not Being Depreciated:				
Land	\$ <u>534,721</u>	-	-	<u>534,721</u>
Capital Assets Being Depreciated:				
Buildings and improvements	1,277,908	-	-	1,277,908
Land improvements	97,225	69,793	-	167,018
Machinery and equipment	3,723,781	66,565	-	3,790,346
Infrastructure	<u>4,004,015</u>	<u>131,438</u>	-	<u>4,135,453</u>
	<u>9,102,929</u>	<u>267,796</u>	-	<u>9,370,725</u>
Total capital assets	<u>9,637,650</u>	<u>267,796</u>	-	<u>9,905,446</u>
Less Accumulated Depreciation:				
Buildings and improvements	(639,136)	(32,920)	-	(672,056)
Land improvements	(9,723)	(5,318)	-	(15,041)
Machinery and equipment	(1,648,733)	(379,725)	-	(2,028,458)
Infrastructure	<u>(1,552,926)</u>	<u>(240,167)</u>	-	<u>(1,793,093)</u>
	<u>(3,850,518)</u>	<u>(658,130)</u>	-	<u>(4,508,648)</u>
Capital assets, net of depreciation	\$ <u>5,787,132</u>	<u>(390,334)</u>	-	<u>5,396,798</u>

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	\$ 12,647
Public safety	303,207
Public works	331,955
Culture, education and recreation	<u>10,321</u>
	\$ <u>658,130</u>

D. Payables

Payables as of December 31, 2015 for the Town's individual major funds and non-major funds in the aggregate, are as follows:

Accounts payable	\$ 81,842
Accrued payroll	15,788
Other accrued liabilities	<u>15,877</u>
Total per fund balance sheet	113,507
Accrued interest	<u>2,089</u>
Total per government-wide statement of net position	\$ <u>115,596</u>

**TOWN OF VERNON
NOTES TO FINANCIAL STATEMENTS**

(4) Detailed Notes on All Funds - Continued

E. Long-Term Obligations

Long-term obligations activity for the year ended December 31, 2015 was as follows:

	<u>Balance</u> <u>12/31/14</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>12/31/15</u>	<u>Amounts</u> <u>Due Within</u> <u>One Year</u>
Governmental Activities:					
Notes payable:					
General obligation debt	\$ 709,472	604,161	502,045	811,588	154,063
Other liabilities:					
Vested compensated absences	<u>100,868</u>	<u>-</u>	<u>1,416</u>	<u>99,452</u>	<u>-</u>
Total governmental long-term liabilities	<u>\$ 810,340</u>	<u>604,161</u>	<u>503,461</u>	<u>911,040</u>	<u>154,063</u>

On December 1, 2015, the Town issued a \$604,161 general obligation note with an interest rate of 3%. A portion of the proceeds were used to prepay the balance of \$319,614 of the December 11, 2013 note which had an interest rate of 3.75%.

All general obligation notes and loans payable are backed by the full faith and credit of the Town and will be retired by future property tax levies. In accordance with Wisconsin Statutes, total general obligation indebtedness of the Town may not exceed 5% of the equalized value of taxable property within the Town of \$823,104,100. The debt limit as of December 31, 2015, was \$41,155,205. Total general obligation debt outstanding at year-end was \$811,588. The following is a list of long-term obligations at December 31, 2015:

	<u>Final</u> <u>Maturity</u>	<u>Interest</u> <u>Rates</u>	<u>Original</u> <u>Indebtedness</u>	<u>Balance</u> <u>12/31/15</u>	<u>Amounts</u> <u>Due Within</u> <u>One Year</u>
General obligation debt:					
2012 Promissory note	6/8/17	2.75%	\$ 367,443	115,235	76,607
2014 Promissory note	7/31/16	1.5%	150,000	75,000	75,000
2014 Promissory note	2/15/22	0%	19,648	17,192	2,456
2015 Promissory note	4/15/24	3.0%	604,161	<u>604,161</u>	<u>-</u>
				<u>\$ 811,588</u>	<u>154,063</u>

Debt service requirements to maturity are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 154,063	3,336	157,399
2017	103,535	25,029	128,564
2018	73,150	16,477	89,627
2019	75,301	14,327	89,628
2020	77,483	12,144	89,627
2021 - 2024	<u>328,056</u>	<u>24,920</u>	<u>352,976</u>
	<u>\$ 811,588</u>	<u>96,233</u>	<u>907,821</u>

F. Interfund Transfers

The General fund transferred \$8,627 to the Debt Service fund to pay accrued interest costs related to debt that had been refinanced in 2015.

**TOWN OF VERNON
NOTES TO FINANCIAL STATEMENTS**

(4) Detailed Notes on All Funds - Continued

G. Lease Agreements

The Town has agreements with three cellular phone companies allowing them the right to lease land for cellular antennas. The terms of the leases are five years with the right to extend the leases for additional five year periods until termination by either party. Rental income for the year ended December 31, 2015 was \$47,193. Future revenues for agreements through their current renewal periods are:

2016	\$ 49,533
2017	28,152
2018	14,900
2019	15,645
2020	16,427

H. Governmental Activities Net Position/Fund Balances

Governmental activities net position reported on the government-wide statement of net position at December 31, 2015 includes the following:

Governmental Activities	
Net investment in capital assets:	
Capital assets, net of accumulated depreciation	\$ 5,396,798
Less: related long-term debt outstanding, excluding borrowings for non-capital purposes	<u>(478,474)</u>
	4,918,324
Restricted – Expendable:	
Future pension benefits	235,750
Fire department operations	130,320
Enabling legislation for capital projects	7,378
Unrestricted	<u>122,859</u>
Total governmental activities net position	\$ <u>5,414,631</u>

Governmental fund balances reported on the fund financial statements at December 31, 2015 include the following:

Non-Spendable - Major Funds:	
General Fund	
Prepaid expenditures	\$ 8,315
Inventory of supplies	119,916
Restricted –	
Major Funds:	
General Fund	
Unspent proceeds of long-term borrowings	240,922
Non-major Funds:	
Fire Department Fund	130,320
Park Fund	7,378
Committed – Non-Major Funds:	
Stormwater Fund	15,355
Unassigned – Major Funds:	
General Fund	<u>164,445</u>
Total governmental fund balances	\$ <u>686,651</u>

**TOWN OF VERNON
NOTES TO FINANCIAL STATEMENTS**

(5) Other Information

A. Defined Benefit Pension Plan

Plan Description. The WRS is a cost-sharing multiple-employer defined benefit pension plan. WRS benefits and other plan provisions are established by Chapter 40 of the Wisconsin Statutes. Benefit terms may only be modified by the legislature. The retirement system is administered by the Wisconsin Department of Employee Trust Funds (ETF). The system provides coverage to all eligible State of Wisconsin, local government and other public employees. All employees, initially employed by a participating WRS employer on or after July 1, 2011, and expected to work at least 1200 hours a year (880 hours for teachers and school district educational support employees) and expected to be employed for at least one year from employee's date of hire are eligible to participate in the WRS.

Vesting. For employees beginning participation on or after January 1, 1990, and no longer actively employed on or after April 24, 1998, creditable service in each of five years is required for eligibility for a retirement annuity. Participants employed prior to 1990 and on or after April 24, 1998, and prior to July 1, 2011, are immediately vested. Participants who initially became WRS eligible on or after July 1, 2011, must have five years of creditable service to be vested.

Benefits Provided. Employees who retire at or after age 65 (54 for protective occupation employees, 62 for elected officials and State executive participants) are entitled to receive an unreduced retirement benefit. The factors influencing the benefit are: (1) final average earnings, (2) years of creditable service, and (3) a formula factor.

Final average earnings is the average of the participant's three highest years' earnings. Creditable service is the creditable current and prior service expressed in years or decimal equivalents of partial years for which a participant receives earnings and makes contributions as required. The formula factor is a standard percentage based on employment category.

Employees may retire at age 55 (50 for protective occupation employees) and receive reduced benefits. Employees terminating covered employment before becoming eligible for a retirement benefit may withdraw their contributions and forfeit all rights to any subsequent benefits. The WRS also provides death and disability benefits for employees.

Post-Retirement Adjustments. The Employee Trust Funds Board may periodically adjust annuity payments from the retirement system based on annual investment performance in accordance with s. 40.27, Wis. Stat. An increase (or decrease) in annuity payments may result when investment gains (losses), together with other actuarial experience factors, create a surplus (shortfall) in the reserves, as determined by the system's consulting actuary. Annuity increases are not based on cost of living or other similar factors. For Core annuities, decreases may be applied only to previously granted increases. By law, Core annuities cannot be reduced to an amount below the original, guaranteed amount (the "floor") set at retirement. The Core and Variable annuity adjustments granted during recent years are as follows:

<u>Year</u>	<u>Core Fund Adjustment</u>	<u>Variable Fund Adjustment</u>
2005	2.6%	7%
2006	0.8%	3%
2007	3.0%	10%
2008	6.6%	0%
2009	(2.1)%	(42)%
2010	(1.3)%	22%
2011	(1.2)%	11%
2012	(7.0)%	(7)%
2013	(9.6)%	9%
2014	4.7%	25%

**TOWN OF VERNON
NOTES TO FINANCIAL STATEMENTS**

(5) Other Information - Continued

A. Defined Benefit Pension Plan - continued

Contributions. Required contributions are determined by an annual actuarial valuation in accordance with Chapter 40 of the Wisconsin Statutes. The employee required contribution is one-half of the actuarially determined contribution rate for general category employees, including teachers, and Executives and Elected Officials. Required contributions for protective employees are the same rate as general employees. Employers are required to contribute the remainder of the actuarially determined contribution rate. The employer may not pay the employee required contribution unless provided for by an existing collective bargaining agreement.

During the reporting period, the WRS recognized \$46,193 in contributions from the employer.

Contribution rates as of December 31, 2015 are:

<u>Employee Category</u>	<u>Employee</u>	<u>Employer</u>
General (including teachers)	6.8%	6.8%
Executives & Elected Officials	7.7%	7.7%
Protective with Social Security	6.8%	9.5%
Protective without Social Security	6.8%	13.1%

Pension Assets, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At December 31, 2015, the Town of Vernon reported an asset of \$117,163 for its proportionate share of the net pension asset. The net pension asset was measured as of December 31, 2014, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2013 rolled forward to December 31, 2014. No material changes in assumptions or benefit terms occurred between the actuarial valuation date and the measurement date. The Town of Vernon's proportionate share of the net pension asset was based on the Town of Vernon's share of contributions to the pension plan relative to the contributions of all participating employers. At December 31, 2014, the Town of Vernon's proportion was .00476995%, which was a decrease of .00019397% from its proportionate share measured as of December 31, 2013.

For the year ended December 31, 2015 the Town of Vernon recognized pension expense of \$47,320.

At December 31, 2015, the Town of Vernon reported deferred outflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>
Differences between expected and actual experience	\$ 16,985
Changes in assumptions	-
Net differences between projected and actual earnings on pension plan investments	56,736
Changes in proportion and differences between employer contributions and proportionate share of contributions	5,891
Employer contributions subsequent to the measurement date	<u>38,975</u>
Total	\$ 118,587

Deferred outflows of \$38,975 related to pension resulting from the WRS Employer's contributions subsequent to the measurement date will be recognized as a reduction of the net pension asset in the year ended December 31, 2016.

**TOWN OF VERNON
NOTES TO FINANCIAL STATEMENTS**

(5) Other Information - Continued

A. Defined Benefit Pension Plan - continued

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

<u>Year ended December 31:</u>	<u>Deferred Outflow of Resources</u>
2016	\$ 19,399
2017	19,399
2018	19,399
2019	19,399
2020	2,016

Actuarial Assumptions. The total pension liability in the December 31, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Valuation Date	December 31, 2013
Measurement Date of Net Pension Liability (Asset)	December 31, 2014
Actuarial Cost Method	Entry Age
Asset Valuation Method	Fair Market Value
Long-Term Expected Rate of Return	7.2%
Discount Rate	7.2%
Salary Increases:	
Inflation	3.2%
Seniority/Merit	0.2% - 5.8%
Mortality	Wisconsin 2012 Mortality Table
Post-retirement Adjustments*	2.1%

* *No post-retirement adjustment is guaranteed. Actual adjustments are based on recognized investment return, actuarial experience and other factors. 2.1% is the assumed annual adjustment based on the investment return assumption and the post-retirement discount rate.*

Actuarial assumptions are based upon an experience study conducted in 2012 using experience from 2009 – 2011. The total pension liability for December 31, 2014 is based upon a roll-forward of the liability calculated from the December 31, 2013 actuarial valuation.

Long-term Expected Return on Plan Assets. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

**TOWN OF VERNON
NOTES TO FINANCIAL STATEMENTS**

(5) Other Information - Continued

A. Defined Benefit Pension Plan - continued

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	Long-Term Real Rate of <u>Return</u>	Target <u>Allocation</u>
US Equities	5.3%	21%
International Equities	5.7%	23%
Fixed Income	1.7%	36%
Inflation Sensitive Assets	2.3%	20%
Real Estate	4.2%	7%
Private Equity/Debt	6.9%	7%
Multi-Asset	3.9%	6%
Cash	0.9%	-20%

Single Discount rate. A single discount rate of 7.20% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.20% and a long-term bond rate of 3.56%. Because of the unique structure of WRS, the 7.20% expected rate of return implies that a dividend of approximately 2.1% will always be paid. For purposes of the single discount rate, it was assumed that the dividend would always be paid. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments (including expected dividends) of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Town of Vernon's proportionate share of the net pension asset to changes in the discount rate. The following presents the Town of Vernon's proportionate share of the net pension asset calculated using the discount rate of 7.20 percent, as well as what the Town of Vernon's proportionate share of the net pension asset (liability) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.20 percent) or 1-percentage-point higher (8.20 percent) than the current rate:

	1% Decrease to Discount Rate <u>(6.20%)</u>	Current Discount Rate <u>(7.20%)</u>	1% Increase To Discount Rate <u>(8.20%)</u>
Town of Vernon's proportionate share of the net pension asset (liability)	\$ (330,537)	\$ 117,163	\$ 470,738

Pension Plan Fiduciary Net Position. Detailed information about the pension plan's fiduciary net position is available in separately issued financial statements available at <http://legis.wisconsin.gov/lab/> and reference report number 15-11.

**TOWN OF VERNON
NOTES TO FINANCIAL STATEMENTS**

(5) Other Information - Continued

B. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage during the past three years.

C. Cumulative Effect of Change in Accounting Principle

The Town adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* effective January 1, 2015.

The primary objective of these Statements is to improve accounting and financial reporting by state and local governments for pensions and improve information provided by state and local governmental employers about financial support for pensions that is provided by other entities.

These Statements establish standards for measuring and recognizing assets, liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures and identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

The cumulative effect of implementing these two Statements is reflected as an increase in net position as of January 1, 2015 as follows:

Restricted - Net pension asset	\$ 195,703
Deferred outflows related to pensions	<u>45,324</u>
Cumulative effect of the change in accounting principle	\$ <u>241,027</u>

D. Subsequent Events

In preparing the financial statements, the Town has evaluated events and transactions for potential recognition or disclosure through June 22, 2016, the date the financial statements were available to be issued. There were no subsequent events that required recognition or disclosure.

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF VERNON
 BUDGETARY COMPARISON STATEMENT
 General Fund
 Year Ended December 31, 2015

	Original and Final Budget	Actual Amounts	Variance with Final Budget Favorable (Unfavorable)
Budgetary fund balance, January 1	\$ 148,222	148,222	-
Resources (inflows):			
Taxes	1,468,781	1,468,779	(2)
Intergovernmental	364,893	360,468	(4,425)
Regulation and compliance	69,030	99,694	30,664
Charges for services	712,795	704,660	(8,135)
Interest	3,490	3,877	387
Miscellaneous	74,146	60,962	(13,184)
Face amount of long-term debt	83,814	284,814	201,000
Amounts available for appropriation	<u>2,925,171</u>	<u>3,131,476</u>	<u>206,305</u>
Charges to appropriations (outflows):			
Current:			
General government	530,167	480,151	50,016
Public safety	748,142	743,933	4,209
Public works	836,893	710,775	126,118
Health and human services	435,818	440,393	(4,575)
Culture, recreation and education	177,429	175,109	2,320
Capital outlays	48,500	38,890	9,610
Transfers out	-	8,627	(8,627)
Total charges to appropriations	<u>2,776,949</u>	<u>2,597,878</u>	<u>179,071</u>
Fund balance, December 31	\$ <u>148,222</u>	<u>533,598</u>	<u>385,376</u>

See independent auditors' report and accompanying notes to required supplementary information

TOWN OF VERNON
WISCONSIN RETIREMENT SYSTEM
Year Ended December 31, 2015

Schedule of the Town's Proportionate Share of the Net Pension Asset
Year Ended December 31, 2015

Proportion of the net pension asset		0.00476995%
Proportionate share of the net pension asset	\$	117,163
Covered employee payroll		559,196
Employer's proportionate share of the net pension asset as a percentage of its covered payroll		20.95%
Plan fiduciary net position as a percentage of the total pension asset		102.74%

Schedule of Employer Pension Contributions
Last Three Fiscal Years

Contractually required contributions	\$	130,312
Contributions in relation to the contractually required contributions		130,312
Contribution deficiency (excess)		-
Covered employee payroll		1,701,000
Contributions as a percentage of covered-employee payroll		7.66%

See independent auditors' report and accompanying notes to required supplementary information

TOWN OF VERNON
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

(1) Budgetary Information

Budgetary information is derived from the annual operating budget and is presented using generally accepted accounting principles and the modified accrual basis of accounting. The Town prepares an annual budget for the general fund. The Town does not budget for the fire department, park and stormwater special revenue funds or the debt service fund.

Public hearings are conducted on the proposed budget prior to Town Board approval. After such hearings the Town holds a special meeting at which time the Town residents set and approve the annual tax levy. The budget is legally enacted prior to December 31 through approval of the Town Board.

Budgets are adopted at the functional level of expenditure. Subsequent to the enactment of the budget, the Town Board has the authority to make amendments to the budget, which may result in changes in total appropriations. Such amendments require approval of two-thirds of the governing body. There were no amendments made to the original approved 2015 budget.

(2) Wisconsin Retirement System Pension

The amounts presented for each fiscal year were determined as of the calendar year-end that occurred within the fiscal year.

The Town is required to present the last ten fiscal years data; however the standards allow the Town to present as many years as are available until ten fiscal years are presented.

There were no changes of benefit terms for any participating employer in WRS.

There were no changes in the assumptions.

SUPPORTING SCHEDULES

TOWN OF VERNON
 Non-Major Governmental Funds
 COMBINING BALANCE SHEET
 December 31, 2015

	Special Revenue			Total Non-Major Funds
	Fire Department	Park	Stormwater	
Assets:				
Cash and cash equivalents	\$ 130,320	7,378	47,975	185,673
Receivables:				
Current tax roll	-	-	21,221	21,221
Total assets	\$ 130,320	7,378	69,196	206,894
Liabilities, Deferred Inflows of Resources and Fund Balance:				
Liabilities:				
Accounts payable	\$ -	-	-	-
Deferred Inflows of Resources:				
Stormwater fees	-	-	53,841	53,841
Fund Balance:				
Restricted	130,320	7,378	-	137,698
Committed	-	-	15,355	15,355
	130,320	7,378	15,355	153,053
Total liabilities, deferred inflows of resources and fund balance	\$ 130,320	7,378	69,196	206,894

TOWN OF VERNON
 Non-Major Governmental Funds
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 Year Ended December 31, 2015

	Special Revenue			Total Non-Major Funds
	Fire Department	Park	Stormwater	
Revenues:				
Charges for services	\$ -	1,395	49,184	50,579
Interest	254	6	-	260
	<u>254</u>	<u>1,401</u>	<u>49,184</u>	<u>50,839</u>
Expenditures:				
Current:				
Public works	-	-	57,149	57,149
	<u>-</u>	<u>-</u>	<u>57,149</u>	<u>57,149</u>
Excess (deficiency) of revenues over expenditures	254	1,401	(7,965)	(6,310)
Fund balance, January 1	<u>130,066</u>	<u>5,977</u>	<u>23,320</u>	<u>159,363</u>
December 31	<u>\$ <u>130,320</u></u>	<u><u>7,378</u></u>	<u><u>15,355</u></u>	<u><u>153,053</u></u>