

**VERNON
INDEPENDENT SCHOOL DISTRICT**

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED AUGUST 31, 2016

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Vernon Independent School District
Annual Financial Report
For The Year Ended August 31, 2016

TABLE OF CONTENTS

	<u>Page</u>	<u>Exhibit</u>
 INTRODUCTORY SECTION		
Certificate of Board.....	1	
 FINANCIAL SECTION		
Independent Auditor's Report.....	5	
Management's Discussion and Analysis (Required Supplementary Information).....	11	
 <u>Basic Financial Statements</u>		
Government-wide Financial Statements:		
Statement of Net Position.....	21	A-1
Statement of Activities.....	22	B-1
Fund Financial Statements:		
Balance Sheet - Governmental Funds.....	23	C-1
Reconciliation of the Governmental Funds		
Balance Sheet to the Statement of Net Position.....	24	C-1R
Statement of Revenues, Expenditures, and Changes in		
Fund Balances - Governmental Funds.....	25	C-2
Reconciliation of the Statement of Revenues, Expenditures, and Changes in		
Fund Balances of Governmental Funds to the Statement of Activities.....	26	C-3
Statement of Net Position - Internal Service Fund.....	27	D-1
Statement of Revenues, Expenses, and Changes in		
Fund Net Position - Internal Service Fund.....	28	D-2
Statement of Cash Flows - Internal Service Funds.....	29	D-3
Statement of Fiduciary Net Position - Fiduciary Funds.....	30	E-1
Statement of Changes in Fiduciary Net Position - Fiduciary Funds.....	31	E-2
Notes to the Financial Statements	33	
 <u>Required Supplementary Information</u>		
Budgetary Comparison Schedules:		
General Fund.....	57	G-1
Schedule of the District's Proportionate Share of the		
Net Pension Liability - Teacher Retirement System Of Texas.....	59	G-2
Schedule of District's Contributions - Teacher Retirement System Of Texas.....	60	G-3
Notes to Required Supplementary Information.....	61	
 OTHER SUPPLEMENTARY INFORMATION SECTION		
Schedule of Delinquent Taxes Receivable.....	64	J-1
Budgetary Comparison Schedules Required by the Texas Education Agency:		
National School Breakfast and Lunch Program.....	66	J-2
Debt Service Fund.....	67	J-3

Vernon Independent School District
Annual Financial Report
For The Year Ended August 31, 2016

TABLE OF CONTENTS

	<u>Page</u>	<u>Exhibit</u>
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	69	
Report on Compliance for Each Major Program and on Internal Control over Compliance Required by Title 2 CFR Part 200 (Uniform Guidance).....	71	
Schedule of Findings and Questioned Costs	73	
Summary Schedule of Prior Audit Findings.....	74	
Corrective Action Plan.....	75	
Schedule of Expenditures of Federal Awards	76	K-1
Notes to the Schedule of Expenditures of Federal Awards.....	78	
Schedule of Required Responses to Selected School First Indicators.....	79	K-2

Introductory Section

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CERTIFICATE OF BOARD

Vernon Independent School District
Name of School District

Wilbarger
County

244-903
Co.-Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above named school district were reviewed and (check one) ✓ approved _____ disapproved for the year ended August 31, 2016, at a meeting of the board of trustees of such school district on the 12th day of December, 2016.

Kay Wall
Signature of Board Secretary

Judy Pattison
Signature of Board President

If the board of trustees disapproved of the auditor's report, the reason(s) for disapproving it is (are):
(attach list as necessary)

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Financial Section

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Certified Public Accountants
John T. Truelove, CPA
Douglas A. Pharis, CPA
Scott Meyers, CPA
Amber N. Marsh, CPA

Independent Auditor's Report

To the Board of Trustees
Vernon Independent School District
Vernon, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Vernon Independent School District ("the District") as of and for the year ended August 31, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 District'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 District'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 Vernon Independent School District as of August 31, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, budgetary comparison information, schedule of the District's proportionate share of the net pension liability and schedule of District pension contributions identified as Required Supplementary Information in the table of contents 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Vernon Independent School District's basic financial statements. The introductory section and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not required parts of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and is also not a required part of the basic financial statements. The accompanying other supplementary information is presented for purposes of additional analysis and is also not a required part of the basic financial statements.

The individual nonmajor fund financial statements and other supplementary information and the schedule of expenditures of federal awards 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 individual nonmajor fund financial statements and other supplementary information and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 1, 2016 on our consideration of Vernon Independent School District'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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Vernon Independent School District's internal control over financial reporting and compliance.

A handwritten signature in blue ink, reading "Moore, Truelove, Pharis, Meyers & Marsh".

Moore, Truelove, Pharis, Meyers & Marsh CPAs, PLLC
Vernon, TX
December 1, 2016

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Management's Discussion and Analysis

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Vernon Independent School District's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year ended August 31, 2016. Please read it in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

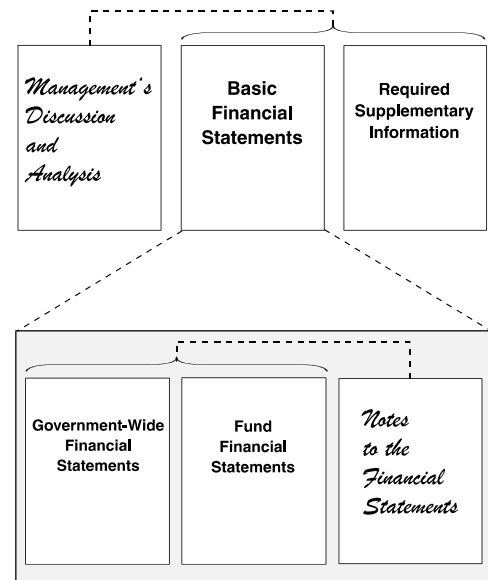
- The District's total combined net position was \$22,060,394 at August 31, 2016.
- During the year, the District's expenses were \$722,155 less than the \$22,687,122 generated in taxes and other revenues for governmental activities.
- The total cost of the District's programs increased \$1.4 million from last year.
- The general fund reported a fund balance this year of \$6,713,623.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the District's operations in more detail than the government-wide statements.
- *The governmental funds* statements tell how *general government* services were financed in the *short term* as well as what remains for future spending.
- *Proprietary fund* statements offer *short- and long-term* financial information about the activities the government operates *like businesses*.
- *Fiduciary fund* statements provide information about the financial relationships in which the District acts solely as a *trustee or agent* for the benefit of others, to whom the resources in question belong.

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



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

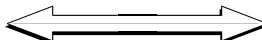
Summary  Detail

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

Government-wide Statements

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

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

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

The government-wide financial statements of the District include the *Governmental activities*. Most of the District's basic services are included here, such as instruction, extracurricular activities, curriculum and staff development, health services and general administration. Property taxes and grants finance most of these activities.

Fund Financial Statements

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

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

The District has the following kinds of funds:

- *Governmental funds*—Most of the District's basic services are included in governmental funds, which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explain the relationship (or differences) between them.

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

Type of Statements	Fund Statements			
	Government-wide	Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire Agency's government (except fiduciary funds) and the Agency's component units	The activities of the district that are not proprietary or fiduciary	Activities the district operates similar to private businesses: self insurance	Instances in which the district is the trustee or agent for someone else's resources
Required financial statements	• Statement of net position	• Balance sheet	• Statement of net position	• Statement of fiduciary net position
	• Statement of activities	• Statement of revenues, expenditures & changes in fund balances	• Statement of revenues, expenses and changes in fund net position • Statement of cash flows	• Statement of changes in fiduciary net position
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; the Agency's funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

- We use *internal service funds* to report activities that provide services for the District's other programs and activities.
- *Fiduciary funds*—The District is the trustee, or *fiduciary*, for certain funds. It is also responsible for other assets that—because of a trust arrangement—can be used only for the trust beneficiaries. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. We exclude these activities from the District's government-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net position. The District's combined net position was \$22,060,394 at August 31, 2016. (See Table A-1).

Table A-1
Vernon Independent School District's Combined Net Position
(In thousands of dollars)

	Governmental Activities		Total Percentage Change 2015-2016
	<u>2016</u>	<u>2015</u>	
Current assets:			
Cash and cash equivalents	\$ 6,479	\$ 7,450	-13.0%
Due from other governments	1,465	961	52.4%
Property taxes (net)	323	304	6.3%
Other receivables	417	16	2506.3%
Inventories	65	61	6.6%
Total current assets	<u>8,749</u>	<u>8,792</u>	-0.5%
Noncurrent assets:			
Capital Assets (net)	<u>18,737</u>	<u>18,839</u>	-0.5%
Total noncurrent assets	<u>18,737</u>	<u>18,839</u>	-0.5%
Total Assets	<u>27,486</u>	<u>27,631</u>	-0.5%
Deferred Outflows of Resources:			
Deferred Loss on Refunding	0	109	-100.0%
Deferred Outflow Related to Pensions	<u>2,013</u>	<u>457</u>	340.5%
Total deferred outflow	<u>2,013</u>	<u>566</u>	255.7%
Current liabilities:			
Accounts payable	330	312	5.8%
Accrued liabilities	797	658	21.1%
Other	10	9	11.1%
Due to Other Governments	<u>72</u>	<u>346</u>	-79.2%
Total current liabilities	<u>1,209</u>	<u>1,325</u>	-8.8%
Long-term liabilities:			
Bonds and Notes	2,071	3,272	-36.7%
Net Pension Liability	<u>3,872</u>	<u>1,732</u>	123.6%
Total Liabilities	<u>7,152</u>	<u>6,329</u>	13.0%

Deferred Inflows of Resources			
Deferred Inflow Related to Pensions	288	530	-45.7%
Total Deferred Inflows of Resources	288	530	
Net Position:			
Invested in Capital Assets	16,829	15,871	6.0%
Restricted	470	922	-49.0%
Unrestricted	4,761	4,545	4.8%
Total Net Position	\$ 22,060	\$ 21,338	3.4%

The \$4.7 million of unrestricted net assets represents resources available to fund the programs of the District next year.

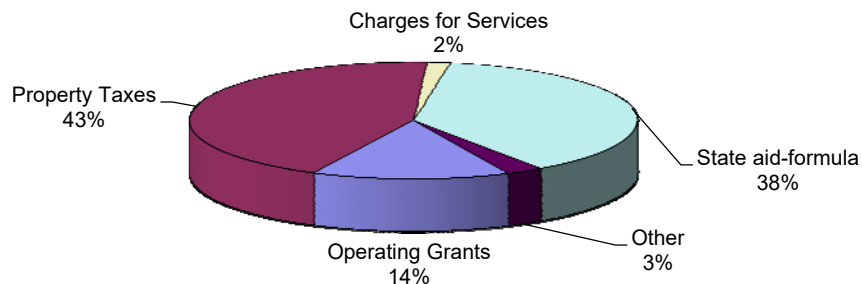
Changes in net position. The District's total revenues were \$22.6 million. A significant portion, 43 percent, of the District's revenue comes from taxes. (See Figure A-3.) 38 percent comes from state aid and formula grants, while 2 percent relates to charges for services.

The total cost of all programs and services was \$21.9 million.

Governmental Activities

- Property tax rates were lowered by 1 cent, however, this coupled with increasing values resulted in an increase of tax revenues of \$584 thousand.

**Figure A-3 District
Sources of Revenue for Fiscal Year 2016**



**Table A-2
Changes in Vernon Independent School District's Net Position
(in thousands of dollars)**

	Governmental Activities		Total Percentage Change
	<u>2016</u>	<u>2015</u>	<u>2015-2016</u>
Program Revenues:			
Charges for Services	\$ 379	\$ 381	-0.52%

Operating Grants and Contributions	3,231	3,418	-5.47%
General Revenues			
Property Taxes	9,904	9,319	6.28%
State Aid – Formula	8,561	8,028	6.64%
Investment Earnings	40	55	-27.27%
Other	572	329	73.86%
Total Revenues	<u>22,687</u>	<u>21,530</u>	5.37%
Instruction	12,294	11,121	10.55%
Instructional Resources and Media Services	184	817	-77.48%
Curriculum Dev. And Instructional Staff Dev.	135	148	-8.78%
Instructional Leadership	249	242	2.89%
School Leadership	1,190	1,055	12.80%
Guidance, Counseling and Evaluation Services	836	756	10.58%
Social Work Services	72	102	-29.41%
Health Services	201	180	11.67%
Student (Pupil) Transportation	657	469	40.09%
Food Services	1,162	1,111	4.59%
Curricular/Extracurricular Activities	910	836	8.85%
General Administration	766	700	9.43%
Plant Maintenance & Oper.	2,310	2,031	13.74%
Security & Monitoring Svcs.	15	131	-88.55%
Data Processing Services	279	266	4.89%
Community Services	8	23	-65.22%
Debt Service	175	176	-0.57%
Bond Issuance Costs and Fees	62	2	0.00%
Payments to Fiscal Agent/Member Dist. – SSA	270	257	5.06%
Other Intergovernmental Charges	190	156	
Total Expenses	<u>21,965</u>	<u>20,579</u>	6.74%
Excess (Deficiency) Before Other Resources, Uses & Transfers	722	951	-24.08%
Other Resources (Uses)	-	-	
Prior Period Adjustment	-	-1,962	
Increase (Decrease) in Net Position	<u>\$ 722</u>	<u>\$ -1,011</u>	-171.41%

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

- The cost of all *governmental* activities this year was \$21.9 million.
- However, the amount that our taxpayers paid for these activities through property taxes was \$9.9 million.
- Some of the cost was paid by those who directly benefited from the programs in the amount of \$.4 million, or by grants and contributions \$3.2 million.

Table A-3
Net Cost of Selected District Functions

	Total Cost of Services		% Change	Net Cost of Services		% Change
	<u>2016</u>	<u>2015</u>		<u>2016</u>	<u>2015</u>	
Instruction	\$ 12,293,378	\$ 11,121,087	11%	\$ 10,791,653	\$ 9,419,486	15%
School administration	\$ 765,660	\$ 699,701	9%	\$ 705,926	\$ 640,375	10%
Plant Maintenance & Operations	\$ 2,310,310	\$ 2,031,439	14%	\$ 2,194,621	\$ 1,922,195	14%

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Revenues from governmental fund types totaled \$22.2 million.

General Fund Budgetary Highlights

Over the course of the year, the District revised its budget several times. With these adjustments, actual expenditures were \$491,354 below final budget amounts.

On the other hand, resources available were \$16,176 below the final budgeted amount.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2016, the District had invested \$37.4 million in a broad range of capital assets, including land, equipment, buildings, and vehicles.

District's Capital Assets
(in thousands of dollars)

	Governmental Activities		Total Percentage Change
	<u>2016</u>	<u>2015</u>	<u>2015-2016</u>
Land	\$ 554	\$ 509	8.8%
Buildings and improvements	32,559	32,357	0.6%
Vehicles	2,303	2,278	1.1%
Equipment	2,015	1,433	40.6%
Totals at historical cost	<u>37,431</u>	<u>36,577</u>	2.3%
Total accumulated depreciation	18,693	17,738	5.4%
Net capital assets	<u>\$ 18,738</u>	<u>\$ 18,839</u>	-0.5%

Long Term Debt

At year-end, the District had \$1.86 million in bonds, capital leases and notes outstanding as shown in Table A-5. More detailed information about the District's debt is presented in the notes to the financial statements.

Bond Ratings

The District's bonds presently carry "AAA" ratings with underlying ratings as follows: Moody's Investor Services "AAA" and Standard & Poors "AAA".

Table A-5
District's Long Term Debt
(In thousands of dollars)

		Governmental Activities		Total Percentage Change
		<u>2016</u>	<u>2015</u>	<u>2015-2016</u>
Loans & capital leases payable	\$	182	\$ 270	-32.6%
Bonds payable		1,680	2,690	-37.5%
Total bonds & notes payable	\$	<u>1,862</u>	<u>\$ 2,960</u>	-37.1%

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- Appraised Net Taxable Value used for the 2016-2017 budget preparation is down \$14.1 million from appraised values used for the 2015-2016 budget preparation.
- General operating fund revenue per student is projected to decrease in the 2016-2017 budget from \$8,872 to \$8,546 per refined ADA. This is a decrease of approximately 4%.
- The District's 2016-2017 refined average daily attendance is expected to be 1,957 which is up slightly from the final 2015-2016 projected number of 1954.

These indicators were taken into account when adopting the general fund budget for 2016-2017. Amounts appropriated in the general fund budget are \$18.43 million, a decrease from 2015-2016 revenue of \$18.65 million. Property tax revenue will decrease based on a decrease in values. This decrease will be offset by state formula calculations. Overall revenue is projected to decrease by \$220,000. Future funding outlook is dependent on the state legislature. For the 2016-2017 school year, we will continue receiving a payment of \$208,500 from the wind farm project. This additional revenue was included in budget development. The District will be looking at one additional wind farm project which may or may not be completed in 2016-2017.

The District has budgeted \$75,000 for facility improvements and \$138,000 for replacement of vehicles in the 2016-2017 budget.

If the current estimates are realized, the District's general fund balance will remain constant in 2016-2017. The current fund balance is at an amount that other capital improvements could be done during the year.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's Business Services Department.

Basic Financial Statements

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VERNON INDEPENDENT SCHOOL DISTRICT

STATEMENT OF NET POSITION

AUGUST 31, 2016

		1
Data Control Codes		Governmental Activities
ASSETS:		
1110	Cash and Cash Equivalents	\$ 6,478,781
1225	Property Taxes Receivable (Net)	322,733
1240	Due from Other Governments	1,465,472
1290	Other Receivables (Net)	417,216
1300	Inventories	64,528
Capital Assets:		
1510	Land	553,859
1520	Buildings and Improvements, Net	16,385,639
1530	Furniture and Equipment, Net	1,798,833
1000	Total Assets	<u>27,487,061</u>
DEFERRED OUTFLOWS OF RESOURCES:		
1705	Deferred Outflow Related to Pensions	<u>2,013,324</u>
1700	Total Deferred Outflows of Resources	<u>2,013,324</u>
LIABILITIES:		
2110	Accounts Payable	330,051
2140	Interest Payable	5,813
2165	Accrued Liabilities	791,107
2180	Due to Other Governments	72,522
2300	Unearned Revenue	10,000
Noncurrent Liabilities:		
2501	Due Within One Year	634,920
2502	Due in More Than One Year	1,435,676
2540	Net Pension Liability	<u>3,871,810</u>
2000	Total Liabilities	<u>7,151,899</u>
DEFERRED INFLOWS OF RESOURCES:		
2605	Deferred Inflow Related to Pensions	<u>288,092</u>
2600	Total Deferred Inflows of Resources	<u>288,092</u>
NET POSITION:		
3200	Net Investment in Capital Assets	16,828,826
Restricted For:		
3820	State and Federal Programs	277,254
3850	Debt Service	98,560
3870	Campus Activities	94,727
3900	Unrestricted	<u>4,761,027</u>
3000	Total Net Position	<u>\$ 22,060,394</u>

The accompanying notes are an integral part of this statement.

VERNON INDEPENDENT SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2016

Data Control Codes	Functions/Programs	1	3	4	Net (Expense) Revenue and Changes in Net Position
		Expenses	Charges for Services	Program Revenues Operating Grants and Contributions	Governmental Activities
	Governmental Activities:				
11	Instruction	\$ 12,293,378	\$ --	\$ 1,501,725	\$ (10,791,653)
12	Instructional Resources and Media Services	183,536	--	8,357	(175,179)
13	Curriculum and Staff Development	134,521	--	43,368	(91,153)
21	Instructional Leadership	249,483	--	106,638	(142,845)
23	School Leadership	1,189,620	--	99,037	(1,090,583)
31	Guidance, Counseling, & Evaluation Services	836,146	--	312,472	(523,674)
32	Social Work Services	72,287	--	62,836	(9,451)
33	Health Services	201,133	--	9,954	(191,179)
34	Student Transportation	656,836	--	25,237	(631,599)
35	Food Service	1,162,149	176,988	829,811	(155,350)
36	Cocurricular/Extracurricular Activities	910,459	202,064	22,672	(685,723)
41	General Administration	765,660	--	59,734	(705,926)
51	Facilities Maintenance and Operations	2,310,310	--	115,689	(2,194,621)
52	Security and Monitoring Services	14,955	--	662	(14,293)
53	Data Processing Services	279,493	--	12,494	(266,999)
61	Community Services	7,674	--	7,265	(409)
72	Interest on Long-term Debt	175,149	--	--	(175,149)
73	Bond Issuance Costs and Fees	61,926	--	--	(61,926)
93	Payments Related to Shared Services Arrangements	270,203	--	13,404	(256,799)
99	Other Intergovernmental Charges	190,049	--	--	(190,049)
TG	Total Governmental Activities	<u>21,964,967</u>	<u>379,052</u>	<u>3,231,355</u>	<u>(18,354,560)</u>
TP	Total Primary Government	<u>\$ 21,964,967</u>	<u>\$ 379,052</u>	<u>\$ 3,231,355</u>	<u>(18,354,560)</u>
	General Revenues:				
MT	Property Taxes, Levied for General Purposes				9,103,724
DT	Property Taxes, Levied for Debt Service				799,700
IE	Investment Earnings				39,674
GC	Grants and Contributions Not Restricted to Specific Programs				8,561,486
MI	Miscellaneous				569,892
	Special and Extraordinary Items:				
S1	Special Item Inflow				<u>2,239</u>
TR	Total General Revenues				<u>19,076,715</u>
CN	Change in Net Position				<u>722,155</u>
NB	Net Position - Beginning				<u>21,338,239</u>
NE	Net Position - Ending				<u>\$ 22,060,394</u>

The accompanying notes are an integral part of this statement.

VERNON INDEPENDENT SCHOOL DISTRICT**BALANCE SHEET - GOVERNMENTAL FUNDS**

AUGUST 31, 2016

Data Control Codes	10 General Fund	Other Governmental Funds	98 Total Governmental Funds
ASSETS:			
1110 <i>Cash and Cash Equivalents</i>	\$ 5,922,309	\$ 444,927	\$ 6,367,236
1225 <i>Taxes Receivable, Net</i>	294,236	28,497	322,733
1240 <i>Due from Other Governments</i>	1,338,481	126,991	1,465,472
1260 <i>Due from Other Funds</i>	445	295	740
1290 <i>Other Receivables</i>	408,530	8,686	417,216
1300 <i>Inventories</i>	--	64,528	64,528
1000 <i>Total Assets</i>	<u>\$ 7,964,001</u>	<u>\$ 673,924</u>	<u>\$ 8,637,925</u>
LIABILITIES:			
Current Liabilities:			
2110 <i>Accounts Payable</i>	\$ 224,945	\$ 32,428	\$ 257,373
2160 <i>Accrued Wages Payable</i>	720,902	70,205	791,107
2170 <i>Due to Other Funds</i>	295	445	740
2180 <i>Due to Other Governments</i>	--	72,522	72,522
2300 <i>Unearned Revenue</i>	10,000	5,584	15,584
2000 <i>Total Liabilities</i>	<u>956,142</u>	<u>181,184</u>	<u>1,137,326</u>
DEFERRED INFLOWS OF RESOURCES:			
<i>Unavailable Revenue for Property Taxes</i>	294,236	28,497	322,733
2600 <i>Total Deferred Inflows of Resources</i>	<u>294,236</u>	<u>28,497</u>	<u>322,733</u>
FUND BALANCES:			
Nonspendable Fund Balances:			
3410 <i>Inventories</i>	--	64,529	64,529
Restricted Fund Balances:			
3450 <i>Federal/State Funds Grant Restrictions</i>	--	206,427	206,427
3480 <i>Retirement of Long-Term Debt</i>	--	98,560	98,560
Committed Fund Balances:			
3510 <i>Construction</i>	500,000	--	500,000
3530 <i>Capital Expenditures for Equipment</i>	450,000	--	450,000
3545 <i>Other Committed Fund Balance</i>	300,000	94,727	394,727
Assigned Fund Balances:			
3590 <i>Other Assigned Fund Balance</i>	1,500,000	--	1,500,000
3600 <i>Unassigned</i>	<u>3,963,623</u>	<u>--</u>	<u>3,963,623</u>
3000 <i>Total Fund Balances</i>	<u>6,713,623</u>	<u>464,243</u>	<u>7,177,866</u>
Total Liabilities, Deferred Inflow of Resources and Fund Balances			
4000	<u>\$ 7,964,001</u>	<u>\$ 673,924</u>	<u>\$ 8,637,925</u>

The accompanying notes are an integral part of this statement.

VERNON INDEPENDENT SCHOOL DISTRICT

*RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
AUGUST 31, 2016*

Total fund balances - governmental funds balance sheet	\$ 7,177,866
Amounts reported for governmental activities in the Statement of Net Position ("SNP") are different because:	
Capital assets used in governmental activities are not reported in the funds.	18,738,333
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	322,733
The assets and liabilities of internal service funds are included in governmental activities in the SNP.	44,451
Payables for bond principal which are not due in the current period are not reported in the funds.	(1,680,001)
Payables for notes which are not due in the current period are not reported in the funds.	(182,300)
Payables for compensated absences which are not due in the current period are not reported in the funds.	(166,904)
Payables for contracts which are not due in the current period are not reported in the funds.	(5,813)
Recognition of the District's proportionate share of the net pension liability is not reported in the funds.	(3,871,810)
Deferred Resource Inflows related to the pension plan are not reported in the funds.	(288,092)
Deferred Resource Outflows related to the pension plan are not reported in the funds.	2,013,324
Bond premiums are amortized in the SNA but not in the funds.	(41,391)
Rounding difference	(2)
Net position of governmental activities - Statement of Net Position	<u>\$ 22,060,394</u>

The accompanying notes are an integral part of this statement.

VERNON INDEPENDENT SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2016

Data Control Codes	10 General Fund	Other Governmental Funds	98 Total Governmental Funds
REVENUES:			
5700 <i>Local and Intermediate Sources</i>	\$ 9,766,261	\$ 1,429,558	\$ 11,195,819
5800 <i>State Program Revenues</i>	8,709,499	122,957	8,832,456
5900 <i>Federal Program Revenues</i>	238,385	1,958,137	2,196,522
5020 Total Revenues	<u>18,714,145</u>	<u>3,510,652</u>	<u>22,224,797</u>
EXPENDITURES:			
Current:			
0011 <i>Instruction</i>	10,184,030	990,068	11,174,098
0012 <i>Instructional Resources and Media Services</i>	168,505	--	168,505
0013 <i>Curriculum and Staff Development</i>	85,219	39,143	124,362
0021 <i>Instructional Leadership</i>	127,354	100,590	227,944
0023 <i>School Leadership</i>	1,026,568	48,345	1,074,913
0031 <i>Guidance, Counseling, & Evaluation Services</i>	459,808	289,744	749,552
0032 <i>Social Work Services</i>	1,160	62,774	63,934
0033 <i>Health Services</i>	180,504	1,018	181,522
0034 <i>Student Transportation</i>	601,539	--	601,539
0035 <i>Food Service</i>	16,528	1,059,977	1,076,505
0036 <i>Cocurricular/Extracurricular Activities</i>	775,827	119,635	895,462
0041 <i>General Administration</i>	676,383	27,291	703,674
0051 <i>Facilities Maintenance and Operations</i>	2,189,151	25,538	2,214,689
0052 <i>Security and Monitoring Services</i>	14,190	--	14,190
0053 <i>Data Processing Services</i>	252,009	--	252,009
0061 <i>Community Services</i>	--	7,282	7,282
0071 <i>Principal on Long-term Debt</i>	87,659	--	87,659
0072 <i>Interest on Long-term Debt</i>	8,588	22,408	30,996
0073 <i>Bond Issuance Costs and Fees</i>	--	1,249,541	1,249,541
0081 <i>Capital Outlay</i>	887,259	--	887,259
0093 <i>Payments to Shared Service Arrangements</i>	270,203	--	270,203
0099 <i>Other Intergovernmental Charges</i>	190,049	--	190,049
6030 Total Expenditures	<u>18,202,533</u>	<u>4,043,354</u>	<u>22,245,887</u>
1100 Excess (Deficiency) of Revenues Over (Under)			
1100 Expenditures	<u>511,612</u>	<u>(532,702)</u>	<u>(21,090)</u>
Other Financing Sources and (Uses):			
7911 <i>Capital-Related Debt Issued (Regular Bonds)</i>	--	1,732,428	1,732,428
7912 <i>Sale of Real or Personal Property</i>	4,804	--	4,804
8949 <i>Other Uses</i>	--	(1,660,611)	(1,660,611)
7080 Total Other Financing Sources and (Uses)	<u>4,804</u>	<u>71,817</u>	<u>76,621</u>
1200 Net Change in Fund Balances	<u>516,416</u>	<u>(460,885)</u>	<u>55,531</u>
0100 Fund Balances - Beginning	<u>6,197,207</u>	<u>925,128</u>	<u>7,122,335</u>
3000 Fund Balances - Ending	<u>\$ 6,713,623</u>	<u>\$ 464,243</u>	<u>\$ 7,177,866</u>

The accompanying notes are an integral part of this statement.

VERNON INDEPENDENT SCHOOL DISTRICT

*RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2016*

Net change in fund balances - total governmental funds	\$ 55,531
Amounts reported for governmental activities in the Statement of Activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	1,093,938
The depreciation of capital assets used in governmental activities is not reported in the funds.	(1,192,513)
Trade-in or disposal of capital assets decrease net position in the SOA but not in the funds.	(2,565)
Amortization of bond premium in the SOA but not in the funds.	11,037
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	19,053
Expenses not requiring the use of current financial resources are not reported as expenditures in the funds.	2,775
Repayment of loan principal is an expenditure in the funds but is not an expense in the SOA.	87,659
The accretion of interest on capital appreciation bonds is not reported in the funds.	(49,431)
The net revenue (expense) of internal service funds is reported with governmental activities.	(5,221)
Compensated absences are reported as the amount earned in the SOA but as the amount paid in the funds.	36,495
Proceeds of bonds do not provide revenue in the SOA, but are reported as current resources in the funds.	(1,732,428)
Recognize deferred loss on the 2005 Bonds in the SOA but not reported in the funds.	(108,534)
Payments to the escrow agent from local resources on defeasance of bonds reported in the funds.	1,187,615
Payments to the escrow agent from issuance of new debt on defeasance reported in the funds.	1,660,611
Implementing GASB 68 required certain expenditures to be recorded as deferred resource outflows.	(782,899)
Pension contributions made after the measurement date but in current FY were de-expended.	441,033
Change in net position of governmental activities - Statement of Activities	\$ <u>722,155</u>

The accompanying notes are an integral part of this statement.

VERNON INDEPENDENT SCHOOL DISTRICT*STATEMENT OF NET POSITION**INTERNAL SERVICE FUND**AUGUST 31, 2016*

Data Control Codes		Nonmajor Internal Service Fund	Self-insured Worker's Compensation
ASSETS:			
	Current Assets:		
1110	<i>Cash and Cash Equivalents</i>	\$	111,545
	Total Current Assets		111,545
1000	Total Assets		111,545
LIABILITIES:			
	Current Liabilities:		
2110	<i>Accounts Payable</i>		67,094
	Total Current Liabilities		67,094
2000	Total Liabilities		67,094
NET POSITION:			
3900	<i>Unrestricted</i>		44,451
3000	Total Net Position	\$	44,451

The accompanying notes are an integral part of this statement.

VERNON INDEPENDENT SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET POSITION - INTERNAL SERVICE FUND
FOR THE YEAR ENDED AUGUST 31, 2016

Data Control Codes		Nonmajor Internal Service Fund
		Self-insured Worker's Compensation
OPERATING REVENUES:		
5700	Local and Intermediate Sources	\$ 71,096
5020	Total Revenues	71,096
OPERATING EXPENSES:		
6400	Other Operating Costs	76,317
6030	Total Expenses	76,317
1300	Change in Net Position	(5,221)
0100	Total Net Position - Beginning	49,672
3300	Total Net Position - Ending	\$ 44,451

The accompanying notes are an integral part of this statement.

VERNON INDEPENDENT SCHOOL DISTRICT*STATEMENT OF CASH FLOWS**INTERNAL SERVICE FUND**FOR THE YEAR ENDED AUGUST 31, 2016*

	Internal Service Funds
Cash Flows from Operating Activities:	
Cash received from interest income	\$ 590
Cash received from other funds	70,505
Cash payment for insurance premiums and claims	<u>(39,835)</u>
Net Cash Provided (Used) by Operating Activities	<u>31,260</u>
Net Increase (Decrease) in Cash and Cash Equivalents	
Cash and Cash Equivalents at Beginning of Year	80,285
Cash and Cash Equivalents at End of Year	<u>\$ 111,545</u>
Reconciliation of Operating Income to Net Cash	
Provided by Operating Activities:	
Operating Income (Loss)	\$ <u>(5,221)</u>
Adjustments to Reconcile Operating Income to Net Cash	
Change in Assets and Liabilities:	
Increase (Decrease) in accounts payable	<u>36,481</u>
Total Adjustments	<u>36,481</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 31,260</u>

The accompanying notes are an integral part of this statement.

VERNON INDEPENDENT SCHOOL DISTRICT*STATEMENT OF FIDUCIARY NET POSITION**FIDUCIARY FUNDS**AUGUST 31, 2016*

			Agency Funds
Data Control Codes		Private-purpose Trust Funds	Student Activity
ASSETS:			
1110	Cash and Cash Equivalents	\$ 205,652	\$ 124,171
1000	Total Assets	205,652	124,171
LIABILITIES:			
Current Liabilities:			
2110	Accounts Payable	379	--
2190	Due to Student Groups	--	124,171
2000	Total Liabilities	379	124,171
NET POSITION:			
3800	Held in Trust	205,273	--
3000	Total Net Position	\$ 205,273	\$ --

The accompanying notes are an integral part of this statement.

VERNON INDEPENDENT SCHOOL DISTRICT*STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**FIDUCIARY FUNDS**FOR THE YEAR ENDED AUGUST 31, 2016*

	Private- Purpose Trusts
Additions:	
Investment Income	\$ 1,133
Total Additions	<u>1,133</u>
Deductions:	
Scholarship Awards	<u>813</u>
Total Deductions	<u>813</u>
Change in Net Assets	320
Net Assets-Beginning of the Year	<u>204,953</u>
Net Assets-End of the Year	<u><u>\$ 205,273</u></u>

The accompanying notes are an integral part of this statement.

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VERNON INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2016

A. Summary of Significant Accounting Policies

The basic financial statements of Vernon Independent School District (the "District") have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") applicable to governmental units in conjunction with the Texas Education Agency's Financial Accountability System Resource Guide ("Resource Guide"). The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

1. Reporting Entity

The Board of School Trustees ("Board"), a seven-member group, has governance responsibilities over all activities related to public elementary and secondary education within the jurisdiction of the District. The Board is elected by the public and has the exclusive power and duty to govern and oversee the management of the public schools of the District. All powers and duties not specifically delegated by statute to the Texas Education Agency ("TEA") or to the State Board of Education are reserved for the Board, and the TEA may not substitute its judgment for the lawful exercise of those powers and duties by the Board. The District receives funding from local, state and federal government sources and must comply with the requirements of those funding entities. However, the District is not included in any other governmental "reporting entity" as defined by the GASB in its Statement No. 14, "The Financial Reporting Entity," as revised by GASB Statement No. 39, and there are no component units included within the reporting entity.

2. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

Government-wide Financial Statements: The statement of net position and the statement of activities include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

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

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

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

The District reports the following major governmental funds:

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

VERNON INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2016

In addition, the District reports the following fund types:

Debt Service Fund: The District accounts for resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds in a debt service fund.

Special Revenue Funds: The District accounts for activities funded with restricted or committed revenues in special revenue funds. Most federal and state grant programs are accounted for in these funds, as well as the District's campus activity funds.

Internal Service Funds: These funds are used to account for revenues and expenses related to services provided to parties inside the District. These funds facilitate distribution of support costs to the users of support services on a cost-reimbursement basis. Because the principal users of the internal services are the District's governmental activities, this fund type is included in the "Governmental Activities" column of the government-wide financial statements.

Private-Purpose Trust Funds: These funds are used to report trust arrangements under which principal and income benefit individuals, private organizations, or other governments not reported in other fiduciary fund types.

Agency Funds: These funds are used to report student activity funds and other resources held in a purely custodial capacity (assets equal liabilities). Agency funds typically involve only the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments.

Fiduciary funds are reported in the fiduciary fund financial statements. However, because their assets are held in a trustee or agent capacity and are therefore not available to support District programs, these funds are not included in the government-wide statements.

b. Measurement Focus, Basis of Accounting

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

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

When the District incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the District's policy to use restricted resources first, then unrestricted resources.

VERNON INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2016

3. Financial Statement Amounts

a. Cash and Cash Equivalents

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

b. Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1, for all real and business personal property in conformity with Subtitle E of the Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available when they become due or past due and receivable within the current period.

Allowances for uncollectible tax receivables within the General and Debt Service Funds are based upon historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

Net property tax receivable is calculated as follows:

Gross property taxes receivable	\$ 569,973
Allowance for uncollectible taxes	(247,240)
Net property taxes receivable	<u>\$ 322,733</u>

c. Inventories and Prepaid Items

The District records purchases of supplies as expenditures, utilizing the purchase method of accounting for inventory in accordance with the Resource Guide, except that the Child Nutrition fund takes a physical inventory at year end and records the cost of the purchased items and market value of donated commodities as inventory at year end. Commodities are also recorded as unearned revenue equal to the market value booked as inventory. When requisitioned, commodity inventory and unearned revenue are relieved, expenditures are charged, and revenue is recognized for an equal amount. Inventories also include plant maintenance and operation supplies as well as instructional supplies.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

d. Capital Assets

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

VERNON INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2016

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	20-50
Building Improvements	10-50
Vehicles	2-15
Office Equipment	3-15
Computer Equipment	3-15

e. Receivable and Payable Balances

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

There are no significant receivables, with the exception of delinquent property taxes, which are not scheduled for collection within one year of year end.

f. Compensated Absences

A full-time employee with at least ten consecutive years of full-time service in the District and who is eligible for retirement under TRS shall be reimbursed for days of unused leave under the following conditions:

1. The employee's retirement shall occur at the end of the second semester of any school year or at the end of the employee's contract year after formal notice of intent to retire has been tendered to the Superintendent on or before April 15 of that year, or;
2. The retiree is involuntarily separated from employment with the District by death or permanent disability.

Unused state leave accumulated through the 2005-06 school year and accumulated local leave starting with the 2006-07 school year shall be reimbursed at the rate of \$20 per day or 40 percent of the employee's daily pay rate, whichever is greater, for accumulated state and local leave days. Reimbursed days shall be deducted from an employee's total accumulated leave at the time of reimbursement.

For purposes of this provision, a full-time employee shall be defined as a person employed on a regular, full-time, hourly basis for 40 or more hours per week throughout the school year or a person employed in a professional or paraprofessional salaried position on a regular full-time basis throughout the school year.

g. Interfund Activity

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

VERNON INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2016

h. Use of Estimates

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

The amount of foundation revenues a school district earns for a year can and does vary until the time when final values for each of these factors in the formula become available. Availability can be as late as midway into the next fiscal year. It is reasonably possible that foundation revenue estimates as of this fiscal year end will change.

i. Data Control Codes

Data Control Codes appear in the rows and above the columns of certain financial statements. The TEA requires the display of these codes in the financial statements filed with TEA in order to insure accuracy in building a statewide database for policy development and funding plans.

j. Deferred Outflows/Inflows of Resources

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

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

k. Fund Balances - Governmental Funds

Fund balances of the governmental funds are classified as follows:

Nonspendable Fund Balance - represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaid insurance) or legally required to remain intact (such as notes receivable or principal of a permanent fund).

Restricted Fund Balance - represents amounts that are constrained by external parties, constitutional provisions or enabling legislation.

Committed Fund Balance - represents amounts that can only be used for a specific purpose because of a formal action by the District's governing board. Committed amounts cannot be used for any other purpose unless the governing board removes those constraints by taking the same type of formal action. Commitments are typically done through adoption and amendment of the budget. Committed fund balance amounts differ from restricted balances in that the constraints on their use do not come from outside parties, constitutional provisions, or enabling legislation.

Assigned Fund Balance - represents amounts which the District intends to use for a specific purpose, but that do not meet the criteria to be classified as restricted or committed. Intent may be stipulated by the governing board or by an official or body to which the governing board delegates the authority. Specific amounts that are not restricted or committed in a special revenue, capital projects, debt service or permanent fund are assigned for purposes in accordance with the nature of their fund type or the fund's primary purpose. Assignments within the general fund conveys that the intended use of those amounts is for a specific purpose that is narrower than the general purposes of the District itself.

Unassigned Fund Balance - represents amounts which are unconstrained in that they may be spent for any purpose. Only the general fund reports a positive unassigned fund balance. Other governmental funds might

VERNON INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2016

report a negative balance in this classification because of overspending for specific purposes for which amounts had been restricted, committed or assigned.

When an expenditure is incurred for a purpose for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

I. Net Position Flow Assumption

Sometimes the District will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

m. Fund Balance Flow Assumptions

Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

4. Pensions

The fiduciary net position of the Teacher Retirement System of Texas (TRS) has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, and information about assets, liabilities and additions to/deductions from TRS' fiduciary net position. 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.

5. New Accounting Standards Adopted

In fiscal year 2016, the District adopted two new statements of financial accounting standards issued by the Governmental Accounting Standards Board (GASB):

- Statement No. 72, *Fair Value Measurement and Application*
 - Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Government*
- a. Statement No. 72 requires state and local governments to measure investments at fair value using a consistent definition and valuation technique; also defines what assets and liabilities governments should measure at fair value and expands fair value disclosures in financial disclosure notes. While the Statement generally requires restatement of prior period balances in the year of implementation, the nature of the District's investments was such that their carrying amount was not affected.
- b. The GAAP hierarchy prioritizes guidance governments follow when preparing U.S. GAAP financial statements. Statement No. 76 reduces authoritative GAAP hierarchy from four categories to two and lists the order of priority for pronouncements to which a government should look for guidance.

VERNON INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2016

B. Compliance and Accountability

1. Finance-Related Legal and Contractual Provisions

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

<u>Violation</u>	<u>Action Taken</u>
None	N/A

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

Following are funds having deficit fund balances or fund net position at year end, if any, along with remarks which address such deficits:

<u>Fund Name</u>	<u>Deficit Amount</u>
None	N/A

C. Cash, Cash Equivalents and Investments

Cash and Cash Equivalents

District Policies and Legal and Contractual Provisions Governing Deposits

Custodial Credit Risk for Deposits - State law requires governmental entities to contract with financial institutions in which funds will be deposited to secure those deposits with insurance or pledged securities with a fair value equaling or exceeding the amount on deposit at the end of each business day. The pledged securities must be in the name of the governmental entity and held by the entity or its agent. Since the District complies with this law, it has no custodial credit risk for deposits.

Foreign Currency Risk - The District limits the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit by limiting all deposits denominated in a foreign currency to less than 5% of all deposits.

As of August 31, 2016, the following are the District's cash and cash equivalents with respective maturities and credit rating:

<u>Type of Deposit</u>	<u>Fair Value</u>	<u>Percent</u>	<u>Maturity in Less Than 1 Year</u>	<u>Maturity in 1-10 Years</u>	<u>Maturity in Over 10 Years</u>	<u>Credit Rating</u>
Cash	\$ 4,154	0%	\$ 4,154			N/A
Money markets and FDIC Insured Accounts	5,623,161	83%	5,623,161			N/A
Investment Pools:						
Lone star	1,181,288	17%	1,181,288			AAA
Total Investment Pools:	1,181,288	17%	1,181,288			
Total Cash and Cash Equivalents	\$ 6,808,603	100%	\$ 6,808,603			

Investments

District Policies and Legal and Contractual Provisions Governing Investments

VERNON INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2016

Compliance with the Public Funds Investment Act

The Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports, and establishment of appropriate policies. Among other things, it requires a governmental entity to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. Statutes authorize the entity to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas and its agencies; (2) guaranteed or secured certificates of deposit issued by state and national banks domiciled in Texas; (3) obligations of states, agencies, counties, cities and other political subdivisions of any state having been rated as to investment quality not less than an "A"; (4) no load money market funds with a weighted average maturity of 90 days or less; (5) fully collateralized repurchase agreements; (6) commercial paper having a stated maturity of 270 days or less from the date of issuance and is not rated less than A-1 or P-1 by two nationally recognized credit rating agencies OR one nationally recognized credit agency and is fully secured by an irrevocable letter of credit; (7) secured corporate bonds rated not lower than "AA-" or the equivalent; (8) public funds investment pools; and (9) guaranteed investment contracts for bond proceeds investment only, with a defined termination date and secured by U.S. Government direct or agency obligations approved by the Texas Public Funds Investment Act in an amount equal to the bond proceeds. The Act also requires the entity to have independent auditors perform test procedures related to investment practices as provided by the Act. The District is in substantial compliance with the requirements of the Act and with local policies.

Additional policies and contractual provisions governing investments for the District are specified below:

Credit Risk To limit the risk that an issuer or other counterparty to an investment will not fulfill its obligations the District limits investments in commercial paper, corporate bonds, mutual bond funds to the top ratings issued by nationally recognized statistical rating organizations (NRSROs). As of August 31, 2016, the District's investments were rated as follows:

Lone Star Investment Pool AAA

Custodial Credit Risk for Investments To limit the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in possession of an outside party the District requires counterparties to register the securities in the name of the district and hand them over to the District or its designated agent. This includes securities in securities lending transactions. All of the securities are in the District's name and held by the District or its agent.

Concentration of Credit Risk To limit the risk of loss attributed to the magnitude of a government's investment in a single issuer, the District limits investments to less than 5% of its total investments. The District further limits investments in a single issuer when they would cause investment risks to be significantly greater in the governmental and business-type activities, individual major funds, aggregate non-major funds and fiduciary fund types than they are in the primary government. Usually this limitation is 20%.

Interest Rate Risk To limit the risk that changes in interest rates will adversely affect the fair value of investments, the District requires at least half of the investment portfolio to have maturities of less than one year on a weighted average maturity basis".

Foreign Currency Risk for Investments The District limits the risk that changes in exchange rates will adversely affect the fair value of an investment by limiting all investments denominated in a foreign currency to less than 5% of all investments".

The District categorizes its fair value measurements with the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy below. In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The District's assessment of the

VERNON INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2016

significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

As of August 31, 2016, the District had the no investments subject to the fair value measurement.

D. Capital Assets

Capital asset activity for the year ended August 31, 2016, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 508,678	\$ 45,181	\$ -	\$ 553,859
Total capital assets not being depreciated	<u>508,678</u>	<u>45,181</u>	<u>-</u>	<u>553,859</u>
Capital assets being depreciated:				
Buildings and improvements	32,356,921	239,489	37,000	32,559,410
Equipment	1,433,293	673,327	91,948	2,014,672
Vehicles	2,278,149	135,938	110,612	2,303,475
Total capital assets being depreciated	<u>36,068,363</u>	<u>1,048,754</u>	<u>239,560</u>	<u>36,877,557</u>
Less accumulated depreciation for:				
Buildings and improvements	(15,291,954)	(918,818)	37,000	(16,173,772)
Equipment	(900,713)	(105,538)	89,385	(916,866)
Vehicles	(1,544,903)	(168,156)	110,612	(1,602,447)
Total accumulated depreciation	<u>(17,737,570)</u>	<u>(1,192,512)</u>	<u>236,997</u>	<u>(18,693,085)</u>
Total capital assets being depreciated, net	<u>18,330,793</u>	<u>(143,758)</u>	<u>2,563</u>	<u>18,184,472</u>
Governmental activities capital assets, net	<u>\$ 18,839,471</u>	<u>\$ (98,577)</u>	<u>\$ 2,563</u>	<u>\$ 18,738,331</u>

VERNON INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2016

Depreciation was charged to functions as follows:

Instruction	\$	628,527
Instructional Resources and Media Services		9,384
Curriculum and Staff Development		6,878
Instructional Leadership		12,755
School Leadership		60,822
Guidance, Counseling, & Evaluation Services		42,750
Social Work Services		3,696
Health Services		10,283
Student Transportation		133,009
Food Services		59,418
Extracurricular Activities		49,106
General Administration		39,147
Plant Maintenance and Operations		121,292
Security and Monitoring Services		764
Data Processing Services		14,289
Community Services		392
	\$	<u>1,192,512</u>

E. Interfund Balances and Activities

1. Due To and From Other Funds

Balances due to and due from other funds at August 31, 2016, consisted of the following:

<u>Due To Fund</u>	<u>Due From Fund</u>	<u>Amount</u>	<u>Purpose</u>
Other General Funds	General Fund	\$ 295	Reimburse expenditures
General Fund	Other General Funds	445	Reimburse expenditures
	Total	\$ <u>740</u>	

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

2. Transfers To and From Other Funds

Transfers to and from other funds at August 31, 2016, consisted of the following:

<u>Transfers From</u>	<u>Transfers to</u>	<u>Amount</u>	<u>Purpose</u>
None		\$ -	
	Total	\$ <u>-</u>	

VERNON INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2016

F. Long-Term Obligations

1. Long-Term Obligation Activity

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the year ended August 31, 2016, are as follows:

	Beginning Balance	Increases	Decreases	Interest Accretion & Premium Amortization	Ending Balance
Governmental activities:					
Unlimited Tax Refunding					
Bonds - Series 2005, 3.88% to 33.43%	\$ 1,750,186	\$	\$ 1,750,186	\$	\$ -
Bonds - Series 2016, Tax Refunding, 2% to 3%	-	1,680,000			1,680,000
Notes Payable (See Below)	269,958		87,659		182,299
Total	<u>2,020,144</u>	<u>1,680,000</u>	<u>1,837,845</u>	<u>-</u>	<u>1,862,299</u>
Unlimited Tax Refunding					
Bonds - Series 2005					
Accumulated Accretion	1,048,607		1,098,038	49,431	-
Loss on defeasance	(108,533)			108,533	-
Premium - 2016 Series	-	52,428		(11,036)	41,392
Net Pension Liability *	1,731,592	2,464,547	324,329		3,871,810
Compensated absences *	203,400		36,495		166,905
Total governmental activities	<u>\$ 4,895,210</u>	<u>\$ 4,196,975</u>	<u>\$ 3,296,707</u>	<u>\$ 146,928</u>	<u>\$ 5,942,406</u>

2. Debt Service Requirements

Debt service requirements on long-term debt at August 31, 2016, are as follows:

Year Ending August 31,	Governmental Activities		
	Principal	Interest	Total
2017	\$ 634,919	\$ 39,713	\$ 674,632
2018	652,380	26,059	678,439
2019	575,000	8,625	583,625
2020	-	-	-
2021	-	-	-
Totals	<u>\$ 1,862,299</u>	<u>\$ 74,397</u>	<u>\$ 1,936,696</u>

3. Continuing Debt Disclosure

The District has entered into a continuing disclosure undertaking to provide annual reports and material event notices to the State Information Depository of Texas, which is the Municipal Advisory Council. The information is required under SEC Rule 15c2-12 to enable investors to analyze the financial condition and operations of the District.

VERNON INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2016

4. Advance Refunding of Debt

GASB Statement No. 7, "Advance Refundings Resulting in Defeasance of Debt," provides that refunded debt and assets placed in escrow for the payment of related debt service be excluded from the financial statements. As of August 31, 2016, outstanding balances of bond issues that have been refunded and defeased in-substance by placing existing assets and the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments are as follows.

Unlimited Tax Refunding Bonds Series 2005

\$3,055,000.00

G. Risk Management

The District is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2016, the District purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

H. Defined Benefit Pension Plan

1. Plan Description

The District participates in a cost-sharing multiple-employer defined benefit pension that has a special funding situation. The plan is administered by the Teacher Retirement System of Texas (TRS). TRS's defined benefit pension plan is established and administered in accordance with the Texas Constitution, Article XVI, Section 67 and Texas Government Code, Title 8, Subtitle C. The pension trust fund is a qualified pension trust under Section 401(a) of the Internal Revenue Code. The Texas Legislature establishes benefits and contribution rates within the guidelines of the Texas Constitution. The pension's Board of Trustees does not have the authority to establish or amend benefit terms.

All employees of public, state-supported educational institutions in Texas who are employed for one-half or more of the standard work load and who are not exempted from membership under Texas Government Code, Title 8, Section 822.002 are covered by the system.

2. Pension Plan Fiduciary Net Position

Detailed information about the Teacher Retirement System's fiduciary net position is available in a separately-issued Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at <http://www.trs.state.tx.us/about/documents/cafr.pdf#CAFR>; by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling (512) 542-6592.

3. Benefits Provided

TRS provides service and disability retirement, as well as death and survivor benefits, to eligible employees (and their beneficiaries) of public and higher education in Texas. The pension formula is calculated using 2.3 percent (multiplier) times the average of the five highest annual creditable salaries times years of credited service to arrive at the annual standard annuity except for members who are grandfathered, for which the three highest annual salaries are used. The normal service retirement is at age 65 with 5 years of credited service or when the sum of the member's age and years of credited service equals 80 or more years. Early retirement is at age 55 with 5 years of service credit or earlier than 55 with 30 years of service credit. There are additional provisions for early retirement if the sum of the member's age and years of service credit total at least 80, but the member is less than age 60 or 62 depending on date of employment, or if the member was grandfathered in under a previous rule. There are no automatic post-employment benefit changes; including automatic COLAs. Ad hoc post-employment benefit changes, including ad hoc COLAs can be granted by the Texas Legislature as noted in the Plan description above.

4. Contributions

Contribution requirements are established or amended pursuant to Article 16, section 67 of the Texas Constitution which

VERNON INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2016

requires the Texas legislature to establish a member contribution rate of not less than 6% of the member's annual compensation and a state contribution rate of not less than 6% and not more than 10% of the aggregate annual compensation paid to members of the system during the fiscal year. Texas Government Code section 821.006 prohibits benefit improvements, if as a result of the particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action.

Employee contribution rates are set in state statute, Texas Government Code 825.402. Senate Bill 1458 of the 83rd Texas Legislature amended Texas Government Code 825.402 for member contributions and established employee contribution rates for fiscal years 2014 thru 2017. The 83rd Texas Legislature, General Appropriations Act (GAA) established the contribution rates for fiscal years 2014 and 2015. The 84th Texas Legislature, General Appropriations Act(GAA) established the employer contribution rates for the fiscal years 2016 and 2017.

Contribution Rates

	2015	2016
Member (Employees)	6.7%	7.2%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employer (District)	6.8%	6.8%
Member (Employees)	\$ 319,161	
Non-Employer Contributing Entity (State)	\$ 853,105	
Employer (District)	\$ 639,885	

Contributors to the plan include members, employers and the State of Texas as the only non-employer contributing entity. The State is the employer for senior colleges, medical schools and state agencies including TRS. In each respective role, the State contributes to the plan in accordance with state statutes and the General Appropriations Act (GAA).

As the non-employer contributing entity for public education and junior colleges, the State of Texas contributes to the retirement system an amount equal to the current employer contribution rate times the aggregate annual compensation of all participating members of the pension trust fund during that fiscal year reduced by the amounts described below which are paid by the employers. Employers (public school, junior college, other entities or the State of Texas as the employer for senior universities and medical schools) are required to pay the employer contribution rate in the following instances:

- On the portion of the member's salary that exceeds the statutory minimum for members entitled to the statutory minimum under Section 21.402 of the Texas Education Code.
- During a new member's first 90 days of employment.
- When any part or all of an employee's salary is paid by federal funding sources, a privately sponsored source, from non-educational and general, or local funds.
- When the employing district is a public junior college or junior college district, the employer shall contribute to the retirement system an amount equal to 50% of the state contribution rate for certain instructional or administrative employees; and 100% of the state contribution rate for all other employees.

In addition to the employer contributions listed above, there are two additional surcharges an employer is subject to.

- When employing a retiree of the Teacher Retirement System the employer shall pay both the member contribution and the state contribution as an employment after retirement surcharge.
- When a school district or charter school does not contribute to the Federal Old-Age, Survivors and Disability Insurance (OASDI) Program for certain employees, they must contribute 1.5% of the state

VERNON INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2016

contribution rate for certain instructional or administrative employees; and 100% of the state contribution rate for all other employees.

5. Actuarial Assumptions

The total pension liability in the August 31, 2015 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	August 31, 2015
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Discount Rate	8.00%
Long-term expected Investment Rate of Return	8.00%
Inflation	2.50%
Salary Increases including inflation	3.50% to 9.50%
Payroll Growth Rate	2.50%
Benefit Changes during the year	None
Ad hoc post-employment benefit changes	None

The actuarial methods and assumptions are primarily based on a study of actual experience for the four year period ending August 31, 2014 and adopted on September 24, 2015.

6. Discount Rate

The discount rate used to measure the total pension liability was 8.0%. There was no change in the discount rate since the previous year. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments 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. The long-term rate of return on pension plan investments is 8%. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates 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. Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2015 are summarized below:

VERNON INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2016

Asset Class	Target Allocation	Real Return Geometric Basis	Long-term Expected Portfolio Real Rate of Return *
Global Equity			
U.S.	18%	4.60%	1.00%
Non-U.S. Developed	13%	5.10%	0.80%
Emerging Markets	9%	5.90%	0.70%
Directional Hedge Funds	4%	3.20%	0.10%
Private Equity	13%	7.00%	1.10%
Stable Value			
U.S. Treasuries	11%	0.70%	0.10%
Absolute Return	0%	1.80%	0.00%
Hedge Funds (Stable Value)	4%	3.00%	0.10%
Cash	1%	-0.20%	0.00%
Real Return			
Global Inflat. Linked Bonds	3%	0.90%	0.00%
Real Assets	16%	5.10%	1.10%
Energy & Natural Resources	3%	6.60%	0.20%
Commodities	0%	1.20%	0.00%
Risk Parity			
Risk Parity	5%	6.70%	0.30%
Inflation Expectation			2.20%
Alpha			1.00%
Total	<u>100%</u>		<u>8.70%</u>

* The Expected Contribution to Returns incorporates the volatility drag resulting from the conversion between Arithmetic and Geometric mean returns.

7. Discount Rate Sensitivity Analysis

The following schedule shows the impact of the Net Pension Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (8%) in measuring the 2015 Net Pension Liability.

	1% Decrease in Discount Rate (7.0%)	Current Discount Rate (8.0%)	1% Increase in Discount Rate (9.0%)
District's proportionate share of the net pension liability:	\$6,066,397	\$3,871,810	\$2,043,856

VERNON INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2016

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

At August 31, 2016, the District reported a liability of \$3,871,810 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of the collective net pension liability	\$3,871,810
State's proportionate share that is associated with District	<u>7,636,626</u>
Total	<u>\$11,508,436</u>

The net pension liability was measured as of August 31, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The employer's proportion of the net pension liability was based on the employer's contributions to the pension plan relative to the contributions of all employers to the plan for the period September 1, 2014 thru August 31, 2015.

At August 31, 2015, the employer's proportion of the collective net pension liability was .0109532% which was an increase (decrease) of .0044706% from its proportion measured August 31, 2014.

Changes Since the Prior Actuarial Valuation – The following are changes to the actuarial assumptions or other inputs that affected measurement of the total pension liability since the prior measurement period:

Economic Assumptions

1. The inflation assumption was decreased from 3.00% to 2.50%.
2. The ultimate merit assumption for long-service employees was decreased from 1.25% to 1.00%.
3. In accordance with the observed experience, there were small adjustments in the service- based promotional/longevity component of the salary scale.
4. The payroll growth assumption was lowered from 3.50% to 2.50%.

Mortality Assumptions

5. The post-retirement mortality tables for non-disabled retirees were updated to reflect recent TRS member experience. Mortality rates will be assumed to continue to improve in the future using a fully generational approach and Scale BB.
6. The post-retirement mortality tables for disabled retirees were updated to reflect recent TRS member experience. Mortality rates will be assumed to continue to improve in the future using a fully generational approach and Scale BB.
7. The pre-retirement mortality tables for active employees were updated to use 90% of the recently published RP-2014 mortality table for active employees. Mortality rates will be assumed to continue to improve in the future using a fully generational approach and Scale BB.

Other Demographic Assumptions

8. Previously, it was assumed 10% of all members who had contributed in the past 5 years to be an active member. This was an implicit rehire assumption because teachers have historically had a high incidence of terminating employment for a time and then returning to the workforce at a later date. This methodology

VERNON INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2016

- was modified to add a more explicit valuation of the rehire incidence in the termination liabilities, and therefore these 10% are no longer being counted as active members.
9. There were adjustments to the termination patterns for members consistent with experience and future expectations. The termination patterns were adjusted to reflect the rehire assumption. The timing of the termination decrement was also changed from the middle of the year to the beginning to match the actual pattern in the data.
 10. Small adjustments were made to the retirement patterns for members consistent with experience and future expectations.
 11. Small adjustments to the disability patterns were made for members consistent with experience and future expectations. Two separate patterns were created based on whether the member has 10 years of service or more.
 12. For members that become disabled in the future, it is assumed 20% of them will choose a 100% joint and survivor annuity option.

Actuarial Methods and Policies

13. The method of using celled data in the valuation process was changed to now using individual data records to allow for better reporting of some items, such as actuarial gains and losses by source.

For the year ended August 31, 2016, the District recognized pension expense of \$1,088,096 and revenue of \$1,088,096 for support provided by the State.

At August 31, 2016, the District reported its proportionate share of the TRS's August 31, 2015 deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$22,272	\$148,797
Changes in actuarial assumptions	93,608	138,129
Difference between projected and actual investment earnings	556,607	--
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	1,021,676	1,166
Contributions paid to TRS subsequent to the measurement date	319,161	--
Total	\$2,013,324	\$288,092

VERNON INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2016

The net amounts of the District's balances of deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended August 31:	Pension Expense Amount
2017	\$253,792
2018	\$253,792
2019	\$253,791
2020	\$386,104
2021	\$146,325
Thereafter	\$112,267

I. Retiree Health Care Plan

1. TRS-Care

a. Plan Description

The District contributes to the Texas Public School Retired Employees Group Insurance Program (TRS-Care), a cost-sharing multiple-employer defined benefit postemployment health care plan administered by the Teacher Retirement System of Texas. TRS-Care provides health care coverage for certain persons (and their dependents) who retired under the Teacher Retirement System of Texas. The statutory authority for the program is Texas Insurance Code, Chapter 1575. Section 1575.052 grants the TRS Board of Trustees the authority to establish and amend basic and optional group insurance coverage for participants. The Teacher Retirement System of Texas issues a publicly available financial report that includes financial statements and required supplementary information for TRS-Care. That report may be obtained by visiting the TRS website under the TRS Publications heading, by calling the TRS Communications Department at 1-800-223-8778, or by writing to the Communications Department of the Teacher Retirement System of Texas at 1000 Red River Street, Austin, Texas 78701.

VERNON INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2016

b. Funding Policy

Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203 and 204 establish state, active employee and public school contributions, respectively. Funding for free basic coverage is provided by the program based upon public school district payroll. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. Funding for optional coverage is provided by those participants selecting the optional coverage. Contribution rates and amounts are shown in the table below for fiscal years 2016-2014.

Contribution by Fiscal Year

Year	Active Member		State		District	
	Rate	Amount	Rate	Amount	Rate	Amount
2016	0.65%	\$ 77,016	1.00%	\$ 118,487	0.55%	\$ 65,168
2015	0.65%	\$ 76,117	1.00%	\$ 117,103	0.55%	\$ 64,407
2014	0.65%	\$ 76,433	1.00%	\$ 117,589	0.55%	\$ 64,674

2. Medicare Part D Subsidies

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for the Texas Public School Retired Employee Group Insurance Program (TRS-Care) to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. For the fiscal years ended August 31, 2016, 2015, and 2014, the subsidy payments received by TRS-Care on behalf of the District were \$51,712, \$52,020, and \$30,471, respectively.

J. Commitments and Contingencies

1. Contingencies

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

2. Litigation

No reportable litigation was pending against the District at August 31, 2016.

VERNON INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2016

K. Shared Services Arrangements

Shared Services Arrangement - Fiscal Agent

The District is the fiscal agent for a Shared Services Arrangement ("SSA") which provides special education services to the member districts listed below. All services are provided by the fiscal agent. The member districts provide the funds to the fiscal agent. According to guidance provided in TEA's Resource Guide, the District has accounted for the fiscal agent's activities of the SSA in a special revenue fund and will be accounted for using Model 3 in the SSA section of the Resource Guide. Expenditures of the SSA are summarized below:

<u>Member Districts</u>	<u>Expenditures</u>
Vernon ISD	\$ 304,462
Northside ISD	18,736
Harrold ISD	11,710
Total	<u>\$ 334,908</u>

L. Committed and Assigned Fund Balance

The Board of Trustees has committed \$1,250,000 of fund balance for future capital needs of the District and the Superintendent has assigned \$1,500,000 of fund balance for future other needs of the District as follows:

Committed for Construction	\$ 500,000
Committed for Equipment	450,000
Committed for other	300,000
Total	<u>\$ 1,250,000</u>
Assigned for Other	<u>\$ 1,500,000</u>

M. Major Taxpayer

The District receives a substantial portion of its tax revenue from a local utility company. For the year ended August 31, 2016, the revenues from this taxpayer were \$1,493,352. There were no receivables from the taxpayer as of August 31, 2016.

N. Deferred Compensation Plan

District employees may elect to defer a portion of their earnings for income tax and investment purposes pursuant to authority granted in the TEX. GOV'T CODE ANN., sec 609.001. The District's 457 plan complies with the Internal Revenue Code Sec. 457. GASB Statement No. 32, effective for financial statements for periods beginning after December 31, 1998, rescinds GASB Statement No. 2 and amends GASB Statement No. 31. GASB Statement No. 2, Financial Reporting of Deferred Compensation Plans Adopted under the Provisions of Internal Revenue Code Section 457, established reporting requirements for IRC Section 457 plans. Based on the laws in effect at the time of its passage, that Statement required that all amounts deferred by the plan participants be reported as assets of the employer until made available to the participants or their beneficiaries. The laws governing these plans were changed to state that, as of August 20, 1996, new plans will not be considered eligible plans "unless all assets and income of the plan described in subsection (b)(6) are held in trust for the exclusive benefit of the participants and their beneficiaries". The District determined that the custodial account established qualified as a third-party trust arrangement as described in GASB Statement No. 32, "Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans".

VERNON INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2016

O. Self-insured Worker's Compensation Plan

The District maintains a self-insured worker's compensation plan. The District has third party insurance coverage for aggregate claims in excess of \$5 million and for specific occurrences exceeding \$500,000. Pool participants are responsible for amounts up to this single limit; however, the District loss fund maximum was \$91,023 for the plan year ended August 31, 2016.

The estimated claims benefit obligation for the self-insured worker's compensation plan of \$67,094 at August 31, 2016 includes requirements of GASB Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicated that it is probable that a liability has been incurred as of the date of the financial statements, and the amount of the loss can be reasonably estimated. Because actual claim liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing the liability does not result necessarily in an exact amount. The liability recorded was the undiscounted estimate of the third party administrator at August 31, 2016. The District's ultimate liability is the sum of the District's loss fund as determined by the third party administrator.

The District is not responsible for claims and claims allocation expense beyond its stop loss insurance coverage noted above.

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Required Supplementary Information

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

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VERNON INDEPENDENT SCHOOL DISTRICT

GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED AUGUST 31, 2016

EXHIBIT G-1

Page 1 of 2

Data Control Codes		1	2	3	Variance with Final Budget Positive (Negative)
		Budgeted Amounts		Actual	
		Original	Final		
REVENUES:					
5700	Local and Intermediate Sources	\$ 9,538,005	\$ 9,966,451	\$ 9,766,261	\$ (200,190)
5800	State Program Revenues	8,498,370	8,605,870	8,709,499	103,629
5900	Federal Program Revenues	95,000	158,000	238,385	80,385
5020	Total Revenues	18,131,375	18,730,321	18,714,145	(16,176)
EXPENDITURES:					
Current:					
Instruction & Instructional Related Services:					
0011	Instruction	10,262,405	10,275,605	10,184,030	91,575
0012	Instructional Resources and Media Services	179,481	179,481	168,505	10,976
0013	Curriculum and Staff Development	87,252	88,252	85,219	3,033
	Total Instruction & Instr. Related Services	10,529,138	10,543,338	10,437,754	105,584
Instructional and School Leadership:					
0021	Instructional Leadership	140,085	140,085	127,354	12,731
0023	School Leadership	1,020,024	1,023,024	1,026,568	(3,544)
	Total Instructional & School Leadership	1,160,109	1,163,109	1,153,922	9,187
Support Services - Student (Pupil):					
0031	Guidance, Counseling and Evaluation Services	454,480	459,480	459,808	(328)
0032	Social Work Services	3,500	3,500	1,160	2,340
0033	Health Services	181,517	181,517	180,504	1,013
0034	Student (Pupil) Transportation	642,054	667,054	601,539	65,515
0035	Food Services	15,000	18,000	16,528	1,472
0036	Cocurricular/Extracurricular Activities	782,360	805,160	775,827	29,333
	Total Support Services - Student (Pupil)	2,078,911	2,134,711	2,035,366	99,345
Administrative Support Services:					
0041	General Administration	694,377	698,877	676,383	22,494
	Total Administrative Support Services	694,377	698,877	676,383	22,494
Support Services - Nonstudent Based:					
0051	Plant Maintenance and Operations	2,437,195	2,386,500	2,189,151	197,349
0052	Security and Monitoring Services	16,550	16,550	14,190	2,360
0053	Data Processing Services	271,584	271,584	252,009	19,575
	Total Support Services - Nonstudent Based	2,725,329	2,674,634	2,455,350	219,284
Debt Service:					
0071	Principal on Long-Term Debt	87,659	87,659	87,659	--
0072	Interest on Long-Term Debt	8,589	8,589	8,588	1
	Total Debt Service	96,248	96,248	96,247	1
Capital Outlay:					
0081	Capital Outlay	310,000	891,110	887,259	3,851
	Total Capital Outlay	310,000	891,110	887,259	3,851
Intergovernmental Charges:					
0093	Payments to Fiscal Agent/Member Dist.-SSA	299,860	299,860	270,203	29,657
0099	Other Intergovernmental Charges	192,000	192,000	190,049	1,951
	Total Intergovernmental Charges	491,860	491,860	460,252	31,608
6030	Total Expenditures	18,085,972	18,693,887	18,202,533	491,354

VERNON INDEPENDENT SCHOOL DISTRICT

GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED AUGUST 31, 2016

EXHIBIT G-1

Page 2 of 2

Data Control Codes		1	2	3	Variance with Final Budget
		Budgeted Amounts		Actual	Positive
		Original	Final		(Negative)
1100	Excess (Deficiency) of Revenues Over (Under)				
1100	Expenditures	45,403	36,434	511,612	475,178
	Other Financing Sources (Uses):				
7912	Sale of Real or Personal Property	1,500	1,500	4,804	3,304
7915	Transfers In	217,450	217,450	--	(217,450)
8911	Transfers Out	(217,450)	(247,450)	--	247,450
7080	Total Other Financing Sources and (Uses)	1,500	(28,500)	4,804	33,304
1200	Net Change in Fund Balance	46,903	7,934	516,416	508,482
0100	Fund Balance - Beginning	--	--	6,197,207	6,197,207
3000	Fund Balance - Ending	\$ 46,903	\$ 7,934	\$ 6,713,623	\$ 6,705,689

VERNON INDEPENDENT SCHOOL DISTRICT

*SCHEDULE OF THE DISTRICT'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY
TEACHER RETIREMENT SYSTEM OF TEXAS
LAST TEN FISCAL YEARS **

	Fiscal Year	
	2016	2015
District's proportion of the net pension liability (asset)	0.109532%	0.006483%
District's proportionate share of the net pension liability (asset)	\$ 3,871,810	\$ 1,731,592
State's proportionate share of the net pension liability (asset) associated with the District	7,636,626	6,849,722
Total	<u>\$ 11,508,436</u>	<u>\$ 8,581,314</u>
District's covered-employee payroll	\$ 11,710,319	\$ 11,758,938
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	33.06%	14.73%
Plan fiduciary net position as a percentage of the total pension liability	78.43%	83.25%

* This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, this schedule provides the information only for those years for which information is available.

VERNON INDEPENDENT SCHOOL DISTRICT

*SCHEDULE OF DISTRICT CONTRIBUTIONS
TEACHER RETIREMENT SYSTEM OF TEXAS
LAST TEN FISCAL YEARS **

	Fiscal Year	
	2016	2015
Contractually required contribution	\$ 319,161	\$ 317,244
Contributions in relation to the contractually required contribution	(319,161)	(317,244)
Contribution deficiency (excess)	\$ --	\$ --
District's covered-employee payroll	\$ 11,848,651	\$ 11,710,319
Contributions as a percentage of covered-employee payroll	2.69%	2.71%

* This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, this schedule provides the information for those years for which information is available.

VERNON INDEPENDENT SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION FOR THE YEAR ENDED AUGUST 31, 2016

Budget

The official budget was prepared for adoption for all Governmental Fund Types. The budget was prepared in accordance with accounting practices generally accepted in the United States of America. The following procedures are followed in establishing the budgetary data.:

- a. Prior to August 21 of the preceding fiscal year, the District prepares a budget for the next succeeding fiscal year. The operating budget includes proposed expenditures and the means of financing them.
- b. A meeting of the Board is then called for the purpose of adopting the proposed budget after ten days' public notice of the meeting has been given.
- c. Prior to the beginning of the fiscal year, the budget is legally enacted through passage of a resolution by the Board.

Once a budget is approved, it can be amended at function and fund level only by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings.

Each amendment must have Board approval. Such amendments are made before the fact, are reflected in the official minutes of the Board and are not made after fiscal year end as required by law.

Each amendment is controlled by the budget coordinator at the revenue and expenditure function/object level. Budgeted amounts are as amended by the Board. All budget appropriations lapse at year end.

Encumbrances for goods or purchased services are documented by purchase orders or contracts. Under Texas law, appropriations lapse at August 31, and encumbrances outstanding at that time are to be either cancelled or appropriately provided for in the subsequent year's budget. There were no end-of-year outstanding encumbrances that were provided for in the subsequent year's budget.

Defined Benefit Pension Plan

Changes of benefit terms

There were no changes of benefit terms that affected measurement of the total pension liability during the measurement period.

Changes of assumptions

The following are changes to the actuarial assumptions or other inputs that affected measurement of the total pension liability since the prior measurement period:

Economic Assumptions

- a. The inflation assumption was decreased from 3.00% to 2.50%
- b. The ultimate merit assumption for long-service employees was decreased from 1.25% to 1.00%.
- c. In accordance with the observed experience, there were small adjustments in the service-based promotional/longevity component of the salary scale.
- d. The payroll growth assumption was lowered from 3.50% to 2.50%

Mortality Assumptions

- e. The post-retirement mortality tables for non-disabled retirees were updated to reflect recent TRS member experience. Mortality rates will be assumed to continue to improve in the future using a fully generational approach and Scale BB.
- f. The post-retirement mortality tables for disabled retirees were updated to reflect recent TRS member experience. Mortality rates will be assumed to continue to improve in the future using a fully generational

approach and Scale BB.

- g. The pre-retirement mortality tables for active employees were updated to use 90% of the recently published RP-2014 mortality table for active employees. Mortality rates will be assumed to continue to improve in the future using a fully generational approach and Scale BB.

Other Demographic Assumptions

- h. Previously, it was assumed 10% of all members who had contributed in the past 5 years to be an active member. This was an implicit rehire assumption because teachers have historically had a high incidence of terminating employment for a time and then returning to the workforce at a later date. This methodology was modified to add a more explicit valuation of the rehire incidence in the termination liabilities and, therefore, these 10% are no longer being counted as active members.
- i. There were adjustments to the termination patterns for members consistent with experience and future expectations. The termination patterns were adjusted to reflect the rehire assumption. The timing of termination decrement was also changed from the middle of the year to the beginning to match the actual pattern in the data.
- j. Small adjustments were made to the retirement patterns for members consistent with experience and future expectations.
- k. Small adjustments to the disability patterns were made for members consistent with experience and future expectations. Two separate patterns were created based on whether the member has 10 years of service or more.
- l. For members that become disabled in the future, it is assumed 20% of them will choose a 100% joint and survivor annuity option.

Actuarial Methods and Policies

- m. The method of using celled data in the valuation process was changed to now using individual data records to allow for better reporting of some items, such as actuarial gains and losses by source.

Other Supplementary Information

This section includes financial information and disclosures not required by the Governmental Accounting Standards Board and not considered a part of the basic financial statements. It may, however, include information which is required by other entities.

VERNON INDEPENDENT SCHOOL DISTRICT

*SCHEDULE OF DELINQUENT TAXES RECEIVABLE
FOR THE YEAR ENDED AUGUST 31, 2016*

Year Ended August 31	1		2		3	
	Tax Rates				Assessed/Appraised Value For School Tax Purposes	
	Maintenance		Debt Service			
2007 and Prior Years	\$	Various	\$	Various	\$	Various
2008		1.04		.103		774,117,230
2009		1.04		.09		771,198,860
2010		1.04		.11		744,072,740
2011		1.04		.11		721,199,630
2012		1.04		.11		735,819,860
2013		1.04		.11		771,219,240
2014		1.04		.11		796,614,560
2015		1.04		.10		828,445,230
2016 (School Year Under Audit)		1.04		.09		895,572,150

1000 Totals

9000 - Portion of Row 1000 for Taxes Paid into Tax Increment Zone Under Chapter 311, Tax Code

10 Beginning Balance 9/1/15	20 Current Year's Total Levy	31 Maintenance Collections	32 Debt Service Collections	40 Entire Year's Adjustments	50 Ending Balance 8/31/16
\$ 133,084	\$ --	\$ 3,325	\$ 93	\$ (4,033)	\$ 125,633
20,416	--	543	56	(796)	19,021
23,944	--	417	41	(1,125)	22,361
23,429	--	727	82	(1,301)	21,319
32,947	--	1,717	180	(2,012)	29,038
37,107	--	5,730	618	(1,966)	28,793
44,192	--	8,663	897	(2,617)	32,015
71,489	--	20,893	2,145	(2,755)	45,696
152,420	--	66,083	5,882	(2,802)	77,653
--	9,953,188	8,860,777	779,807	(144,160)	168,444
<u>\$ 539,028</u>	<u>\$ 9,953,188</u>	<u>\$ 8,968,875</u>	<u>\$ 789,801</u>	<u>\$ (163,567)</u>	<u>\$ 569,973</u>
\$ --	\$ --	\$ --	\$ --	\$ --	\$ --

VERNON INDEPENDENT SCHOOL DISTRICT

EXHIBIT J-2

NATIONAL SCHOOL BREAKFAST AND LUNCH PROGRAM BUDGETARY COMPARISON SCHEDULE FOR THE YEAR ENDED AUGUST 31, 2016

Data Control Codes		1	2	3
		Budget	Actual	Variance Positive (Negative)
REVENUES:				
5700	Local and Intermediate Sources	\$ 215,000	\$ 177,019	\$ (37,981)
5800	State Program Revenues	44,150	15,159	(28,991)
5900	Federal Program Revenues	830,000	813,825	(16,175)
5020	Total Revenues	1,089,150	1,006,003	(83,147)
EXPENDITURES:				
Current:				
Support Services - Student (Pupil):				
0035	Food Services	1,097,950	1,059,977	37,973
	Total Support Services - Student (Pupil)	1,097,950	1,059,977	37,973
Administrative Support Services:				
0041	General Administration	1,000	1,000	--
	Total Administrative Support Services	1,000	1,000	--
Support Services - Nonstudent Based:				
0051	Plant Maintenance and Operations	15,000	15,000	--
	Total Support Services - Nonstudent Based	15,000	15,000	--
6030	Total Expenditures	1,113,950	1,075,977	37,973
1100	Excess (Deficiency) of Revenues Over (Under)			
1100	Expenditures	(24,800)	(69,974)	(45,174)
Other Financing Sources (Uses):				
7915	Transfers In	30,000	--	(30,000)
7080	Total Other Financing Sources and (Uses)	30,000	--	(30,000)
1200	Net Change in Fund Balance	5,200	(69,974)	(75,174)
0100	Fund Balance - Beginning	71,656	71,656	--
3000	Fund Balance - Ending	\$ 76,856	\$ 1,682	\$ (75,174)

VERNON INDEPENDENT SCHOOL DISTRICT

EXHIBIT J-3

DEBT SERVICE FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED AUGUST 31, 2016

Data Control Codes		1	2	3
		Budget	Actual	Variance Positive (Negative)
	REVENUES:			
5700	<i>Local and Intermediate Sources</i>	\$ 788,131	\$ 800,990	\$ 12,859
5020	Total Revenues	<u>788,131</u>	<u>800,990</u>	<u>12,859</u>
	EXPENDITURES:			
	Debt Service:			
0072	<i>Interest on Long-Term Debt</i>	22,408	22,408	--
0073	<i>Bond Issuance Costs and Fees</i>	<u>1,258,705</u>	<u>1,249,541</u>	<u>9,164</u>
	Total Debt Service	<u>1,281,113</u>	<u>1,271,949</u>	<u>9,164</u>
6030	Total Expenditures	<u>1,281,113</u>	<u>1,271,949</u>	<u>9,164</u>
1100	Excess (Deficiency) of Revenues Over (Under)			
1100	Expenditures	<u>(492,982)</u>	<u>(470,959)</u>	<u>22,023</u>
	Other Financing Sources (Uses):			
7911	<i>Capital-Related Debt Issued (Regular Bonds)</i>	1,732,428	1,732,428	--
8949	<i>Other Uses</i>	<u>(1,660,611)</u>	<u>(1,660,611)</u>	<u>--</u>
7080	Total Other Financing Sources and (Uses)	<u>71,817</u>	<u>71,817</u>	<u>--</u>
1200	Net Change in Fund Balance	<u>(421,165)</u>	<u>(399,142)</u>	<u>22,023</u>
0100	Fund Balance - Beginning	497,702	497,702	--
3000	Fund Balance - Ending	<u>\$ 76,537</u>	<u>\$ 98,560</u>	<u>\$ 22,023</u>

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Certified Public Accountants
John T. TrueLove, CPA
Douglas A. Pharis, CPA
Scott Meyers, CPA
Amber N. Marsh, CPA

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*.

Board of Trustees
Vernon Independent School District
Vernon, Texas

Members of the Board of Trustees:

We have audited, in accordance with the 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, each major fund, and the aggregate remaining fund information of Vernon Independent School District, as of and for the year ended August 31, 2016, and the related notes to the financial statements, which collectively comprise Vernon Independent School District's basic financial statements, and have issued our report thereon dated December 1, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Vernon Independent School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Vernon Independent School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Vernon Independent School District'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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Vernon Independent School District's financial statements are free from material misstatement, we performed tests of its

compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.

A handwritten signature in blue ink, reading "Moore, Truelove, Pharis, Meyers & Marsh".

Moore, Truelove, Pharis, Meyers & Marsh CPAs, PLLC
Vernon, TX
December 1, 2016



Certified Public Accountants
John T. Truelove, CPA
Douglas A. Pharis, CPA
Scott Meyers, CPA
Amber N. Marsh, CPA

Independent Auditor's Report on Compliance for Each Major Program and on Internal
Control Over Compliance Required by the Uniform Guidance

Board of Trustees
Vernon Independent School District
Vernon, Texas

Members of the Board of Trustees:

Report on Compliance for Each Major Federal Program

We have audited the Vernon Independent School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on Vernon Independent School District's major federal program for the year ended August 31, 2016. Vernon Independent School District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Vernon Independent School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Vernon Independent School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Vernon Independent School District's compliance.

Opinion on Each Major Federal Program

In our opinion, the Vernon Independent School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended August 31, 2016.

Report on Internal Control Over Compliance

Management of the Vernon Independent School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Vernon Independent School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Vernon Independent School District's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we considered to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Moore, Truelove, Pharis, Meyres & Marsh CPAs, PLLC
Vernon, TX
December 1, 2016

VERNON INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2016

A. Summary of Auditor's Results

1. Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

One or more material weaknesses identified? Yes X No

One or more significant deficiencies identified that are not considered to be material weaknesses? Yes X None Reported

Noncompliance material to financial statements noted? Yes X No

2. Federal Awards

Internal control over major programs:

One or more material weaknesses identified? Yes X No

One or more significant deficiencies identified that are not considered to be material weaknesses? Yes X None Reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Title 2 U.S. Code of Federal Regulations (CFR) Part 200? Yes X No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.553	School Breakfast Program
10.555	National School Lunch Program

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee? X Yes No

B. Financial Statement Findings

NONE

C. Federal Award Findings and Questioned Costs

NONE

VERNON INDEPENDENT SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED AUGUST 31, 2016

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>Management's Explanation If Not Implemented</u>
Not Applicable		

VERNON INDEPENDENT SCHOOL DISTRICT
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED AUGUST 31, 2016

Not Applicable

VERNON INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2016

EXHIBIT K-1

Page 1 of 2

(1)	(2)	(2A)	(3)	
Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass- Through Entity Identifying Number	Passed Through to Subrecipients	Federal Expenditures
CHILD NUTRITION CLUSTER:				
<u>U. S. Department of Agriculture</u>				
Passed Through State Department of Education:				
School Breakfast Program	10.553	244-903	\$	\$ 186,867
National School Lunch Program	10.555	244-903		540,106
National School Lunch Program (Non-cash)	10.555	244-903		57,203
Total CFDA Number 10.555			--	597,308
Total Passed Through State Department of Education			--	784,176
Total U. S. Department of Agriculture			--	784,176
Total Child Nutrition Cluster			--	784,176
MEDICAID CLUSTER:				
<u>U. S. Department of Health and Human Services</u>				
Passed Through State Department of Education:				
Medicaid Administrative Claiming Program - MAC	93.778	244-903	--	1,018
Total U. S. Department of Health and Human Services			--	1,018
Total Medicaid Cluster			--	1,018
SPECIAL EDUCATION (IDEA) CLUSTER:				
<u>U. S. Department of Education</u>				
Passed Through State Department of Education:				
SSA IDEA-B Formula	84.027	156600012449036600	--	2,029
SSA IDEA-B Formula	84.027	166600012449036600	--	443,398
SSA IDEA-B Formula	84.027	176600012449036600	--	26,122
Total CFDA Number 84.027			--	471,549
SSA IDEA-B Preschool	84.173	166610012449036610	--	9,474
Total Passed Through State Department of Education			--	481,023
Total U. S. Department of Education			--	481,023
Total Special Education (IDEA) Cluster			--	481,023
OTHER PROGRAMS:				
<u>U. S. Department of Education</u>				
Passed Through State Department of Education:				
ESEA Title I Part A - Improving Basic Programs	84.010a	16610101244903	--	442,095
ESEA Title I Part A - Improving Basic Programs	84.010a	17610101244903	--	36,362
Total CFDA Number 84.010a			--	478,457
Career and Technical - Basic Grant	84.048	16420006244903	--	25,942
ESEA, Title VI, Part B, Subpart 2 - Rural and Low Income	84.358b	16696001244903	--	42,014
ESEA Title II Part A - Teacher & Principal Training & Recruiting	84.367a	1669451244903	--	107,466
ESEA Title II Part A - Teacher & Principal Training & Recruiting	84.367a	17694501244903	--	8,392
Total CFDA Number 84.367a			\$ --	\$ 115,858
Total Passed Through State Department of Education			--	662,271
Total U. S. Department of Education			--	662,271

VERNON INDEPENDENT SCHOOL DISTRICT

*SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2016*

EXHIBIT K-1

Page 2 of 2

(1)	(2)	(2A)	(3)
Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass- Through Entity Identifying Number	Passed Through to Subrecipients
<u>U. S. Department of Agriculture</u>			
Passed Through Texas Department of Agriculture:			
National School Lunch Program Training Assistance	10.547	244-903	1,500
National School Lunch Equipment Assistance	10.579	244-903	28,150
Total Passed Through Texas Department of Agriculture			--
Total U. S. Department of Agriculture			29,650
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ --

\$ 1,958,138

The accompanying notes are an integral part of this schedule.

VERNON INDEPENDENT SCHOOL DISTRICT

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED AUGUST 31, 2016

Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Vernon Independent School District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

1 Reconciliation of Federal Awards

The following reconciles federal expenditures per the Schedule of Expenditures of Federal Awards (SEFA) to the federal revenue reported on Exhibit C-2:

Federal Expenditures per SEFA	\$	1,958,137
Amounts attributable to School Health and Related Services		<u>238,385</u>
Federal revenue per Exhibit C-2	\$	<u><u>2,196,522</u></u>

2 The District has not elected to use the 10% de minimis indirect cost rate.

VERNON INDEPENDENT SCHOOL DISTRICT

*SCHEDULE OF REQUIRED RESPONSES TO SELECTED SCHOOL FIRST INDICATORS
AS OF AUGUST 31, 2016*

<u>Data Control Codes</u>		<u>Responses</u>
SF2	Were there any disclosures in the Annual Financial Report and/or other sources of information concerning nonpayment of any terms of any debt agreement at fiscal year end?	No
SF4	Was there an unmodified opinion in the Annual Financial Report?	Yes
SF5	Did the Annual Financial Report disclose any instances of material weaknesses in internal controls over financial reporting and compliance for local, state or federal funds?	No
SF6	Was there any disclosure in the Annual Financial Report of material noncompliance for grants, contracts and laws related to local, state or federal funds?	No
SF7	Did the school district make timely payments to the Teachers Retirement System (TRS), Texas Workforce Commission (TWC), Internal Revenue Service (IRS), and other governmental agencies?	Yes
SF8	Did the school district <u>not</u> receive an adjusted repayment schedule for more than one fiscal year for an over allocation of Foundation School Program (FSP) funds as a result of a financial hardship?	Yes
SF10	What was the total accumulated accretion on capital appreciation bonds (CABs) included in government-wide financial statements at fiscal year-end?	\$ --
SF11	Net Pension Assets (object 1920) at fiscal year-end.	\$ --
SF12	Net Pension Liabilities (object 2540) at fiscal year-end.	\$ 3,871,810
SF13	Pension Expense (object 6147) at fiscal year-end.	\$ 341,866