

**VERNON
INDEPENDENT SCHOOL DISTRICT**

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED AUGUST 31, 2007

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Vernon Independent School District
Annual Financial Report
For The Year Ended August 31, 2007

TABLE OF CONTENTS

	<u>Page</u>	<u>Exhibit</u>
INTRODUCTORY SECTION		
Certificate of Board.....	1	
FINANCIAL SECTION		
Independent Auditor's Report on Financial Statements.....	5	
Management's Discussion and Analysis (Required Supplementary Information).....	8	
<u>Basic Financial Statements</u>		
Government-wide Financial Statements:		
Statement of Net Assets.....	17	A-1
Statement of Activities.....	18	B-1
Fund Financial Statements:		
Balance Sheet - Governmental Funds.....	20	C-1
Reconciliation of the Governmental Funds		
Balance Sheet to the Statement of Net Assets.....	21	C-1R
Statement of Revenues, Expenditures, and Changes in		
Fund Balances - Governmental Funds.....	22	C-2
Reconciliation of the Statement of Revenues, Expenditures, and Changes in		
Fund Balances of Governmental Funds to the Statement of Activities.....	23	C-3
Statement of Net Assets - Internal Service Fund.....	24	D-1
Statement of Revenues, Expenses, and Changes in		
Fund Net Assets - Internal Service Fund.....	25	D-2
Statement of Cash Flows - Internal Service Funds.....	26	D-3
Statement of Fiduciary Net Assets - Fiduciary Funds.....	27	E-1
Statement of Changes in Fiduciary Net Assets - Fiduciary Funds.....	28	E-2
Notes to the Financial Statements	29	
<u>Required Supplementary Information:</u>		
Budgetary Comparison Schedules:		
General Fund.....	43	G-1
OTHER SUPPLEMENTARY INFORMATION SECTION		
Schedule of Delinquent Taxes Receivable.....	46	J-1
Indirect Cost Computation Schedule	48	J-2
Fund Balance and Cash Flow Calculation Worksheet (Unaudited)-General Fund.....	49	J-3
Budgetary Comparison Schedules Required by the Texas Education Agency:		
National School Breakfast and Lunch Program.....	50	J-4
Debt Service Fund.....	51	J-5
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>	53	

Vernon Independent School District
Annual Financial Report
For The Year Ended August 31, 2007

TABLE OF CONTENTS

	<u>Page</u>	<u>Exhibit</u>
Report on Compliance with Requirements Applicable To each Major Program and Internal Control over Compliance In Accordance With OMB Circular A-133.....	55	
Schedule of Findings and Questioned Costs	57	
Summary Schedule of Prior Audit Findings.....	58	
Corrective Action Plan.....	59	
Schedule of Expenditures of Federal Awards	60	K-1
Notes to the Schedule of Expenditures of Federal Awards.....	61	
Schedule of Required Responses to Selected School First Indicators.....	62	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, 2007, at a meeting of the board of trustees of such school district on the ____ day of _____, _____.

Signature of Board Secretary

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
Michael C. Moore, CPA
John T. Truelove, CPA
Douglas A. Pharis, CPA

Independent Auditor's Report on Financial Statements

Board of Trustees
Vernon Independent School District
Vernon, Texas

Members of the Board of Trustees:

We have audited the accompanying 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, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Vernon Independent School District's management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Vernon Independent School District as of August 31, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2007, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and the budgetary comparison information identified as Required Supplementary Information in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements which collectively

comprise the Vernon Independent School District's basic financial statements. The accompanying schedule of expenditures of federal awards required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations* and the supporting schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information, except for that portion marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



King, Moore, Truelove & Pharis
December 4, 2007

Management's Discussion and Analysis

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, 2007. Please read it in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

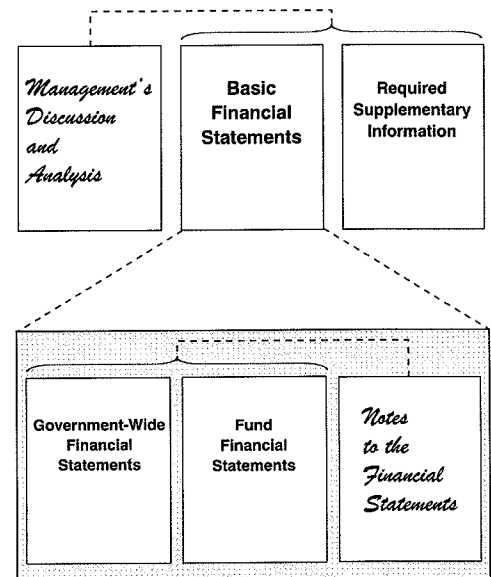
- The District's total combined net assets were \$14,331,164 at August 31, 2007.
- During the year, the District's expenses were \$1,393,258 less than the \$20,726,640 generated in taxes and other revenues for governmental activities.
- The total cost of the District's programs was virtually unchanged from last year, and no new programs were added this year.
- The general fund reported a fund balance this year of \$4,503,505.

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. 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	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures & changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in fund net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
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

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 assets and how they have changed. Net assets—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 assets 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.

- 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 assets and a statement of changes in fiduciary net assets. 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 assets. The District's combined net assets were \$14,331,164 at August 31, 2007. (See Table A-1).

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

	Governmental Activities		Total Percentage Change
	<u>2007</u>	<u>2006</u>	<u>2006-2007</u>
Current assets:			
Cash and cash equivalents	\$ 5,116	\$ 5,152	-0.7%
Due from other governments	1,476	1,088	35.7%
Property taxes (net)	368	369	-0.3%
Other receivables	39	50	-22.0%
Inventories	29	25	16.0%
Other	129	149	-13.4%
Total current assets	<u>7,157</u>	<u>6,833</u>	4.7%
Noncurrent assets:			
Capital Assets (net)	16,456	16,247	1.3%
Total noncurrent assets	<u>16,456</u>	<u>16,247</u>	1.3%
Total Assets	<u>23,613</u>	<u>23,080</u>	2.3%
Current liabilities:			
Accounts payable	525	381	37.8%
Accrued liabilities	612	1,014	-39.6%
Current Portion of Debt	94	95	-1.1%
Due to Other Governments	485	432	12.3%
Total current liabilities	<u>1,716</u>	<u>1,922</u>	-10.7%
Long-term liabilities:			
Bonds and notes	7,566	8,220	-8.0%
Total Liabilities	<u>9,282</u>	<u>10,142</u>	-8.5%
Net Assets:			
Reserved and Designated	11,457	11,340	1.0%
Unrestricted	2,874	1,598	79.8%
Total Net Assets	<u>\$ 14,331</u>	<u>\$ 12,938</u>	10.8%

The \$2.8 million of unrestricted net asset represents resources available to fund the programs of the District next year.

Changes in net assets. The District's total revenues were \$20.7 million. A significant portion, 55 percent, of the District's revenue comes from taxes. (See Figure A-3.) 23 percent comes from state aid and formula grants, while 1 percent relates to charges for services.

The total cost of all programs and services was \$19.3 million.

Governmental Activities

- Property tax rates were lowered and this coupled with increasing values resulted in an increase of tax revenues of \$364,541.

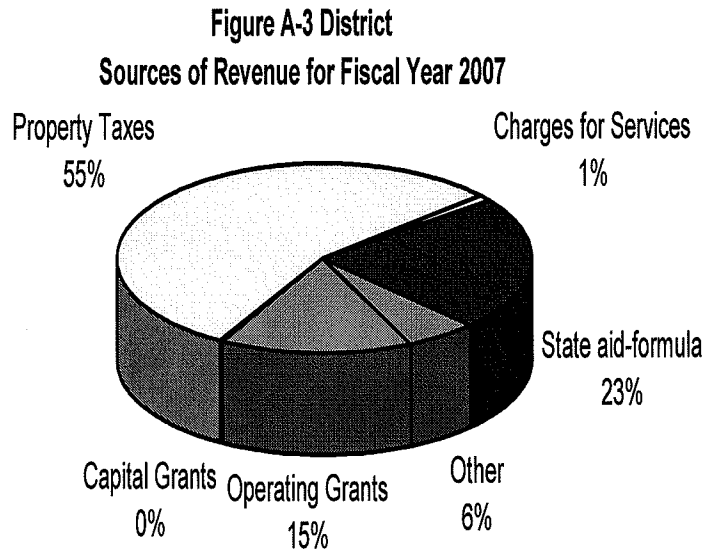


Table A-2
Changes in Vernon Independent School District's Net Assets
(in thousands of dollars)

	Governmental Activities		Total Percentage Change <u>2006-2007</u>
	<u>2007</u>	<u>2006</u>	
Program Revenues:			
Charges for Services	\$ 282	\$ 298	-5.37%
Operating Grants and Contributions	3,129	3,708	-15.61%
Capital Grants and Contributions	38	69	-44.93%
General Revenues			
Property Taxes	11,433	11,070	3.28%
State Aid – Formula	4,702	3,603	30.50%
Investment Earnings	393	318	23.58%
Other	749	445	68.31%
Total Revenues	20,726	19,511	6.23%

Instruction	10,518	10,683	-1.53%
Instructional Resources and Media Services	412	412	0.00%
Curriculum Dev. And Instructional Staff Dev.	200	253	-20.95%
Instructional Leadership	241	256	-5.86%
School Leadership	1020	955	6.81%
Guidance, Counseling and Evaluation Services	717	670	6.72%
Social Work Services	53	6	783.33%
Health Services	158	141	12.06%
Student (Pupil) Transportation	548	554	-1.08%
Food Services	852	893	-4.59%
Curricular/Extracurricular Activities	807	780	3.46%
General Administration	725	629	15.26%
Plant Maintenance & Oper.	2,086	1,814	14.99%
Security & Monitoring Svcs.	58	65	-10.77%
Data Processing Services	141	75	88.00%
Community Services	6	7	-14.29%
Debt Service	349	336	3.87%
Bond Issuance Costs and Fees	12	12	0.00%
Capital Outlay	40	0	0.00%
Payments to Fiscal Agent/ Member Dist. – SSA	390	381	2.36%
Total Expenses	19,333	18,922	2.17%
Excess (Deficiency) Before Other Resources, Uses & Transfers	1,393	589	136.50%
Other Resources (Uses)	-	-	
Transfers In (Out)	-	-	
Increase (Decrease) in Net Assets	\$ 1,393	\$ 589	136.50%

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

- The cost of all *governmental* activities this year was \$19.3 million.
- However, the amount that our taxpayers paid for these activities through property taxes was \$11.4 million.
- Some of the cost was paid by those who directly benefited from the programs in the amount of \$.3 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>2007</u>	<u>2006</u>		<u>2007</u>	<u>2006</u>	
Instruction	\$ 10,518,298	\$ 10,683,374	-2%	\$ 8,559,429	\$ 8,612,040	-1%
School administration	\$ 724,462	\$ 629,095	15%	\$ 691,874	\$ 594,006	16%
Plant Maintenance & Operations	\$ 2,085,786	\$ 1,814,287	15%	\$ 1,993,360	\$ 1,715,888	16%

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Revenues from governmental fund types totaled \$20.7 million.

General Fund Budgetary Highlights

Over the course of the year, the District revised its budget several times. With these adjustments, actual expenditures were \$429,327 below final budget amounts. The most significant positive variance resulted from staffing. Staffing is budgeted for full employment throughout the full year. Budget amounts for vacant positions throughout the year are not eligible to budget revisions.

On the other hand, resources available were \$193,336 above the final budgeted amount.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2007, the District had invested \$27.4 million in a broad range of capital assets, including land, equipment, buildings, and vehicles. (See Table A-4.)

Table A-4
District's Capital Assets
(in thousands of dollars)

	Governmental Activities		Total Percentage Change <u>2006-2007</u>
	<u>2007</u>	<u>2006</u>	
Land	\$ 438	\$ 437	0.2%
Buildings and improvements	24,263	23,591	2.8%
Vehicles	2,068	1,869	10.6%
Equipment	599	514	16.5%
Totals at historical cost	<u>27,368</u>	<u>26,411</u>	3.6%
Total accumulated depreciation	10,912	10,165	7.3%
Net capital assets	\$ <u>16,456</u>	\$ <u>16,246</u>	1.3%

Long Term Debt

At year-end, the District had \$7.4 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>2007</u>	<u>2006</u>	<u>2006-2007</u>
Loans & Capital Leases payable	\$ 513	\$ 702	-26.9%
Bonds payable	6,914	7,417	-6.8%
Total bonds & notes payable	<u>\$ 7,427</u>	<u>\$ 8,119</u>	-8.5%

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- Appraised value used for the 2007-2008 budget preparation is up \$18.6 million, or 2.46% from appraised values used for the 2006-2007 budget preparation. New construction for 2007 is down \$343,300 to \$1,389,870.
- General operating fund spending per student decreases in the 2007-2008 budget from \$8,254 to \$7,926. This is a 3.97% decrease.
- The District's 2007-2008 refined average daily attendance is expected to be 2,050, down .7%

These indicators were taken into account when adopting the general fund budget for 2007-2008. Amounts available for appropriation in the general fund budget are \$16.2 million, a decrease over the original 2006-2007 budget of \$16.5 million. Property tax revenue will decrease. This decrease will be offset by additional state funding per HB1. Overall revenue is projected to decrease under the current financing system. The District will use available funds to finance programs we currently offer. The projected Existing Debt Allotment is down \$39,816 or 100% of the allotment projected for 2006-07. No Existing Debt Allotment will be received in 2007-2008.

Expenditures are budgeted to decrease over the original 2006-2007 budget by 1.8%. The District has included approximately \$315,000 for improvements to facilities. Funds budgeted in the general fund for technology purchases will increase due to improvements in the infrastructure. The general fund budget includes the purchase of two new school buses. The 2007-2008 budget reflects a deficit due to construction needs throughout the District.

If these estimates are realized, the District's budgetary general fund balance is not expected to change appreciably by the close of 2008.

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

This page is left blank intentionally.

VERNON INDEPENDENT SCHOOL DISTRICT

STATEMENT OF NET ASSETS

AUGUST 31, 2007

Data Control Codes	1	Governmental Activities
ASSETS:		
1110	Cash and Cash Equivalents	\$ 5,116,206
1225	Property Taxes Receivable (Net)	368,024
1240	Due from Other Governments	1,475,525
1290	Other Receivables (Net)	39,070
1300	Inventories	29,041
1410	Deferred Expenses	22,516
1420	Capitalized Bond and Other Debt Issuance Costs	106,865
Capital Assets:		
1510	Land	437,547
1520	Buildings and Improvements, Net	15,125,966
1530	Furniture and Equipment, Net	892,182
1000	Total Assets	<u>23,612,942</u>
LIABILITIES:		
2110	Accounts Payable	525,464
2120	Short-Term Debt Payable	94,293
2140	Interest Payable	7,230
2165	Accrued Liabilities	603,503
2180	Due to Other Governments	485,317
Noncurrent Liabilities:		
2501	Due Within One Year	847,466
2502	Due in More Than One Year	6,718,505
2000	Total Liabilities	<u>9,281,778</u>
NET ASSETS		
3200	Invested in Capital Assets, Net of Related Debt	9,022,851
Restricted For:		
3820	State and Federal Programs	132,995
3850	Debt Service	196,693
3860	Capital Projects	2,000,000
3870	Campus Activities	105,048
3900	Unrestricted	2,873,577
3000	Total Net Assets	<u>\$ 14,331,164</u>

The accompanying notes are an integral part of this statement.

VERNON INDEPENDENT SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2007

Data Control Codes	Functions/Programs	1	3	4	5
		Expenses	Charges for Services	Program Revenues Operating Grants and Contributions	Capital Grants and Contributions
	Government Activities:				
11	<i>Instruction</i>	\$ 10,518,298	\$ 8,500	\$ 1,950,369	\$ --
12	<i>Instructional Resources and Media Services</i>	412,620	--	52,165	--
13	<i>Curriculum and Staff Development</i>	200,491	--	135,680	--
21	<i>Instructional Leadership</i>	241,282	--	11,873	--
23	<i>School Leadership</i>	1,019,650	--	46,930	--
31	<i>Guidance, Counseling, & Evaluation Services</i>	716,951	--	74,318	--
32	<i>Social Work Services</i>	53,432	--	49,914	--
33	<i>Health Services</i>	157,925	--	7,031	--
34	<i>Student Transportation</i>	547,997	--	21,339	--
35	<i>Food Service</i>	852,303	191,087	571,979	--
36	<i>Cocurricular/Extracurricular Activities</i>	807,151	82,599	16,495	--
41	<i>General Administration</i>	724,462	--	32,588	--
51	<i>Plant Maintenance and Operations</i>	2,085,786	--	92,426	--
52	<i>Security and Monitoring Services</i>	57,852	--	12,983	--
53	<i>Data Processing Services</i>	140,916	--	25,428	--
61	<i>Community Services</i>	5,817	--	5,606	--
72	<i>Interest on Long-term Debt</i>	348,721	--	1,535	37,839
73	<i>Bond Issuance Costs and Fees</i>	11,624	--	--	--
81	<i>Capital Outlay</i>	40,080	--	1,851	--
93	<i>Payments Related to Shared Services Arrangements</i>	390,024	--	18,016	--
TG	Total Governmental Activities	<u>19,333,382</u>	<u>282,186</u>	<u>3,128,526</u>	<u>37,839</u>
TP	Total Primary Government	<u>\$ 19,333,382</u>	<u>\$ 282,186</u>	<u>\$ 3,128,526</u>	<u>\$ 37,839</u>
	General Revenues:				
MT	<i>Property Taxes, Levied for General Purposes</i>				
DT	<i>Property Taxes, Levied for Debt Service</i>				
IE	<i>Investment Earnings</i>				
GC	<i>Grants and Contributions Not Restricted to Specific Programs</i>				
MI	<i>Miscellaneous</i>				
	Special and Extraordinary Items:				
S1	<i>Special Item Inflow</i>				
TR	Total General Revenues				
CN	Change in Net Assets				
NB	Net Assets - Beginning				
NE	Net Assets - Ending				

The accompanying notes are an integral part of this statement.

Net (Expense)
Revenue and
Changes in
Net Assets

Governmental
Activities

\$	(8,559,429)
	(360,455)
	(64,811)
	(229,409)
	(972,720)
	(642,633)
	(3,518)
	(150,894)
	(526,658)
	(89,237)
	(708,057)
	(691,874)
	(1,993,360)
	(44,869)
	(115,488)
	(211)
	(309,347)
	(11,624)
	(38,229)
	(372,008)
	<u>(15,884,831)</u>
	<u>(15,884,831)</u>

10,628,358
805,461
392,886
4,702,197
602,636

	146,551
	<u>17,278,089</u>
	1,393,258
	12,937,906
\$	<u><u>14,331,164</u></u>

VERNON INDEPENDENT SCHOOL DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS

AUGUST 31, 2007

Data Control Codes	10 General Fund	Other Governmental Funds	98 Total Governmental Funds	
ASSETS:				
1110	Cash and Cash Equivalents	\$ 4,602,050	\$ 385,636	\$ 4,987,686
1225	Taxes Receivable, Net	341,590	26,434	368,024
1240	Due from Other Governments	1,293,051	182,474	1,475,525
1260	Due from Other Funds	21,310	46,440	67,750
1290	Other Receivables	38,910	--	38,910
1300	Inventories	--	29,041	29,041
1000	Total Assets	<u>\$ 6,296,911</u>	<u>\$ 670,025</u>	<u>\$ 6,966,936</u>
LIABILITIES:				
Current Liabilities:				
2110	Accounts Payable	\$ 433,949	\$ 57,320	\$ 491,269
2150	Payroll Deductions & Withholdings	10,211	5,612	15,823
2160	Accrued Wages Payable	493,652	98,670	592,322
2170	Due to Other Funds	46,439	2,044	48,483
2180	Due to Other Governments	467,565	17,752	485,317
2300	Unearned Revenue	341,590	40,027	381,617
2000	Total Liabilities	<u>1,793,406</u>	<u>221,425</u>	<u>2,014,831</u>
FUND BALANCES:				
Reserved Fund Balances:				
3420	Debt Service	--	206,533	206,533
3450	Reserve for Food Service	--	156	156
3490	Other Reserves of Fund Balance	--	241,911	241,911
Designated Fund Balance:				
3510	Construction	2,000,000	--	2,000,000
3600	Unreserved	2,503,505	--	2,503,505
3000	Total Fund Balances	<u>4,503,505</u>	<u>448,600</u>	<u>4,952,105</u>
4000	Total Liabilities and Fund Balances	<u>\$ 6,296,911</u>	<u>\$ 670,025</u>	<u>\$ 6,966,936</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 ASSETS
AUGUST 31, 2007

Total fund balances - governmental funds balance sheet	\$ 4,952,105
Amounts reported for governmental activities in the statement of net assets ("SNA") are different because:	
Capital assets used in governmental activities are not reported in the funds.	16,455,693
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	368,024
The assets and liabilities of internal service funds are included in governmental activities in the SNA.	93,454
Payables for bond principal which are not due in the current period are not reported in the funds.	(6,913,448)
Payables for capital leases which are not due in the current period are not reported in the funds.	(98,165)
Payables for notes which are not due in the current period are not reported in the funds.	(421,231)
Payables for compensated absences which are not due in the current period are not reported in the funds.	(234,650)
Prepaid Insurance not reported in the funds.	22,515
Other long-term assets are not available to pay for current-period expenditures and are deferred in the funds.	106,865
Rounding difference	<u>2</u>
Net assets of governmental activities - statement of net assets	<u>\$ 14,331,164</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, 2007

Data Control Codes	10 General Fund	Other Governmental Funds	98 Total Governmental Funds
REVENUES:			
5700 Local and Intermediate Sources	\$ 11,280,007	\$ 1,582,313	\$ 12,862,320
5800 State Program Revenues	5,372,976	444,300	5,817,276
5900 Federal Program Revenues	2,721	2,042,045	2,044,766
5020 Total Revenues	<u>16,655,704</u>	<u>4,068,658</u>	<u>20,724,362</u>
EXPENDITURES:			
Current:			
0011 Instruction	8,416,277	1,622,088	10,038,365
0012 Instructional Resources and Media Services	356,405	41,282	397,687
0013 Curriculum and Staff Development	60,342	132,893	193,235
0021 Instructional Leadership	148,350	84,200	232,550
0023 School Leadership	945,890	36,859	982,749
0031 Guidance, Counseling, & Evaluation Services	412,240	278,831	691,071
0032 Social Work Services	1,661	49,837	51,498
0033 Health Services	152,210	--	152,210
0034 Student Transportation	635,730	--	635,730
0035 Food Service	8,185	811,948	820,133
0036 Cocurricular/Extracurricular Activities	659,122	124,732	783,854
0041 General Administration	706,788	5,148	711,936
0051 Plant Maintenance and Operations	2,143,963	6,247	2,150,210
0052 Security and Monitoring Services	44,847	10,911	55,758
0053 Data Processing Services	112,034	23,782	135,816
0061 Community Services	--	5,606	5,606
0071 Principal on Long-term Debt	191,461	481,996	673,457
0072 Interest on Long-term Debt	30,177	338,004	368,181
0073 Bond Issuance Costs and Fees	--	2,331	2,331
0081 Capital Outlay	653,137	--	653,137
0093 Payments to Shared Service Arrangements	390,024	--	390,024
6030 Total Expenditures	<u>16,068,843</u>	<u>4,056,695</u>	<u>20,125,538</u>
1100 Excess (Deficiency) of Revenues Over (Under)			
1100 Expenditures	<u>586,861</u>	<u>11,963</u>	<u>598,824</u>
Other Financing Sources and (Uses):			
7912 Sale of Real or Personal Property	3,298	--	3,298
7915 Transfers In	--	45,395	45,395
8911 Transfers Out	(45,395)	--	(45,395)
7080 Total Other Financing Sources and (Uses)	<u>(42,097)</u>	<u>45,395</u>	<u>3,298</u>
1200 Net Change in Fund Balances	544,764	57,358	602,122
0100 Fund Balances - Beginning	3,958,741	391,242	4,349,983
3000 Fund Balances - Ending	<u>\$ 4,503,505</u>	<u>\$ 448,600</u>	<u>\$ 4,952,105</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, 2007

Net change in fund balances - total governmental funds \$ 602,122

Amounts reported for governmental activities in the statement of activities
("SOA") are different because:

Capital outlays are not reported as expenses in the SOA.	956,351
The depreciation of capital assets used in governmental activities is not reported in the funds.	(747,765)
Amortization of loss on defeance	(31,010)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	(1,020)
Expenses not requiring the use of current financial resources are not reported as expenditures in the funds.	(687)
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.	820,001
Repayment of capital lease principal is an expenditure in the funds but is not an expense in the SOA.	93,652
Repayment of loan principal is an expenditure in the funds but is not an expense in the SOA.	95,441
Bond issuance costs and similar items are amortized in the SOA but not in the funds	(9,293)
The accretion of interest on capital appreciation bonds is not reported in the funds.	(704,439)
The net revenue (expense) of internal service funds is reported with governmental activities.	(59,297)
Compensated absences are reported as the amount earned in the SOA but as the amount paid in the funds.	(39,912)
Expenses that benefit future periods are deferred to those periods	(848)
Amortization of Bond Premium not reported in the funds	419,959
Rounding difference	4

Change in net assets of governmental activities - statement of activities \$ 1,393,258

The accompanying notes are an integral part of this statement.

VERNON INDEPENDENT SCHOOL DISTRICT

STATEMENT OF NET ASSETS

INTERNAL SERVICE FUND

AUGUST 31, 2007

Data Control Codes		Nonmajor Internal Service Fund
		Insurance Fund
	ASSETS:	
	Current Assets:	
1110	Cash and Cash Equivalents	\$ 93,454
	Total Current Assets	<u>93,454</u>
1000	Total Assets	<u>\$ 93,454</u>
	LIABILITIES:	
2000	Total Liabilities	<u>--</u>
	NET ASSETS:	
3900	Unrestricted Net Assets	\$ 93,454
3000	Total Net Assets	<u><u>\$ 93,454</u></u>

The accompanying notes are an integral part of this statement.

VERNON INDEPENDENT SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENSES, AND CHANGES
 IN FUND NET ASSETS - INTERNAL SERVICE FUND
 FOR THE YEAR ENDED AUGUST 31, 2007

Data Control Codes	Nonmajor Internal Service Fund
	Insurance Fund
	<u> </u>
OPERATING REVENUES:	
5700 <i>Local and Intermediate Sources</i>	\$ 6,448
5020 Total Revenues	<u>6,448</u>
OPERATING EXPENSES:	
6100 <i>Payroll Costs</i>	<u>65,745</u>
6030 Total Expenses	<u>65,745</u>
1300 Change in Net Assets	(59,297)
0100 Total Net Assets - Beginning	152,751
3300 Total Net Assets - Ending	<u>\$ 93,454</u>

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, 2007

	Internal Service Funds
Cash Flows from Operating Activities:	
<i>Cash Received from Interest Income</i>	\$ 6,448
<i>Cash payment for insurance premiums and claims</i>	(65,745)
Net Cash Provided (Used) by Operating Activities	<u>(59,297)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(59,297)
Cash and Cash Equivalents at Beginning of Year	152,751
Cash and Cash Equivalents at End of Year	<u>\$ 93,454</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating Income (Loss)	\$ (59,297)
Adjustments to Reconcile Operating Income to Net Cash	
Change in Assets and Liabilities:	
<i>Increase (Decrease) in due to other funds</i>	<u>--</u>
Total Adjustments	<u>--</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (59,297)</u>

The accompanying notes are an integral part of this statement.

VERNON INDEPENDENT SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET ASSETS

FIDUCIARY FUNDS

AUGUST 31, 2007

Data Control Codes	Private-purpose Trust Funds	Agency Funds Student Activity
ASSETS:		
1110 <i>Cash and Cash Equivalents</i>	\$ --	\$ 109,526
1250 <i>Accrued Interest</i>	1,724	--
1800 <i>Restricted Assets</i>	193,583	--
1000 Total Assets	<u>195,307</u>	<u>109,526</u>
LIABILITIES:		
Current Liabilities:		
2110 <i>Accounts Payable</i>	928	--
2190 <i>Due to Student Groups</i>	--	109,526
2000 Total Liabilities	<u>928</u>	<u>109,526</u>
NET ASSETS		
3800 <i>Held in Trust</i>	194,379	--
3000 Total Net Assets	<u>\$ 194,379</u>	<u>\$ --</u>

The accompanying notes are an integral part of this statement.

VERNON INDEPENDENT SCHOOL DISTRICT

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FIDUCIARY FUNDS

FOR THE YEAR ENDED AUGUST 31, 2007

	Private- Purpose Trusts
Additions:	
Investment Income	\$ 8,913
Contributions	100
Total Additions	<u>9,013</u>
Deductions:	
Scholarship Awards	7,208
Total Deductions	<u>7,208</u>
Change in Net Assets	1,805
Net Assets-Beginning of the Year	192,574
Net Assets-End of the Year	<u>\$ 194,379</u>

The accompanying notes are an integral part of this statement.

VERNON INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2007

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 assets 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, 2007

In addition, the District reports the following fund types:

Internal Service Funds: These funds are used to account for revenues and expenses related to services provided to parties inside the 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.

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

VERNON INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2007

3. Financial Statement Amounts

a. Cash and Cash Equivalents

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

b. Property Taxes

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

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.

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.

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	50
Building Improvements	20
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 which are not scheduled for collection within one year of year end.

VERNON INDEPENDENT SCHOOL DISTRICT

*NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2007*

f. **Compensated Absences**

Employees of the District are granted compensated sick leave time annually. Sick leave days accumulate from year to year and full time employees with at least 10 or more years of service and who retire or separate from employment because of death or disability will be reimbursed at the greater of the rate of \$20 per day or 40% of the employee's daily pay rate for any unused sick leave.

g. **Interfund Activity**

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

h. **Use of Estimates**

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

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.

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 reported	Not applicable

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

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

<u>Fund Name</u>	<u>Deficit Amount</u>	<u>Remarks</u>
None reported	Not applicable	Not applicable

VERNON INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2007

C. Deposits and Investments

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

1. Cash Deposits:

At August 31, 2007, the carrying amount of the District's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$3,852,209 and the bank balance was \$3,971,730. The District's cash deposits at August 31, 2007 and during the year ended August 31, 2007, were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name.

2. Investments:

The District is required by Government Code Chapter 2256, The Public Funds Investment Act, 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, and (9) bid solicitation preferences for certificates of deposit.

The Public Funds Investment Act ("Act") requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the basic financial statements disclosed that in the areas of investment practices, management reports and establishment of appropriate policies, the District adhered to the requirements of the Act. Additionally, investment practices of the District were in accordance with local policies.

The Act determines the types of investments which are allowable for the District. These include, with certain restrictions, 1) obligations of the U.S. Treasury, U.S. agencies, and the State of Texas, 2) certificates of deposit, 3) certain municipal securities, 4) securities lending program, 5) repurchase agreements, 6) bankers acceptances, 7) mutual funds, 8) investment pools, 9) guaranteed investment contracts, and 10) commercial paper.

The District's investments at August 31, 2007 are shown below.

<u>Investment or Investment Type</u>	<u>Maturity</u>	<u>Fair Value</u>
Lone Star Investment Pool	N/A	\$ 1,365,498
Treasury Obligations	Various	21,049
US Treasury Note	11-15-2007	24,955
FHLB Note	10-12-2007	24,992
Freddie Mac	06-22-2010	50,341
Bank Savings	N/A	73
Certificate of Deposit	Various	7,955
Treasury Obligations	Various	2,161
Freddie Mac	06-22-2010	25,170
Freddie Mac	09-02-2011	10,060
Treasury Obligations	Various	1,946
FHLB Note	01-16-2009	25,000
Total Investments		\$ <u>1,559,200</u>

VERNON INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2007

3. Analysis of Specific Deposit and Investment Risks

GASB Statement No. 40 requires a determination as to whether the District was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures:

a. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At year end, the District was not significantly exposed to credit risk.

b. Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the District's name.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the District's name.

At year end, the District was not exposed to custodial credit risk.

c. Concentration of Credit Risk

This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year end, the District was not exposed to concentration of credit risk.

d. Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. At year end, the District was not exposed to interest rate risk.

e. Foreign Currency Risk

This is the risk that exchange rates will adversely affect the fair value of an investment. At year end, the District was not exposed to foreign currency risk.

Investment Accounting Policy

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

Public Funds Investment Pools

Public funds investment pools in Texas ("Pools") are established under the authority of the Interlocal Cooperation Act, Chapter 79 of the Texas Government Code, and are subject to the provisions of the Public Funds Investment Act (the "Act"), Chapter 2256 of the Texas Government Code. In addition to other provisions of the Act designed to promote liquidity and safety of principal, the Act requires Pools to: 1) have an advisory board composed of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool; 2) maintain a continuous rating of no lower than AAA or AAA-m or an equivalent rating by at least one nationally recognized rating service; and 3)

VERNON INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2007

maintain the market value of its underlying investment portfolio within one half of one percent of the value of its shares.

The District's investments in Pools are reported at an amount determined by the fair value per share of the pool's underlying portfolio, unless the pool is 2a7-like, in which case they are reported at share value. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission ("SEC") as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940.

D. Capital Assets

Capital asset activity for the year ended August 31, 2007, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
<u>Governmental activities:</u>				
<i>Capital assets not being depreciated:</i>				
Land	\$ 437,547	\$ --	\$ --	\$ 437,547
Total capital assets not being depreciated	<u>437,547</u>	<u>--</u>	<u>--</u>	<u>437,547</u>
<i>Capital assets being depreciated:</i>				
Buildings and improvements	23,591,137	672,471	--	24,263,608
Equipment	514,088	85,322	--	599,410
Vehicles	1,869,491	198,558	--	2,068,049
Total capital assets being depreciated	<u>25,974,716</u>	<u>956,351</u>	<u>--</u>	<u>26,931,067</u>
Less accumulated depreciation for:				
Buildings and improvements	(8,541,582)	(596,060)	--	(9,137,642)
Equipment	(270,645)	(37,971)	--	(308,617)
Vehicles	(1,352,929)	(113,731)	--	(1,466,660)
Total accumulated depreciation	<u>(10,165,156)</u>	<u>(747,762)</u>	<u>--</u>	<u>(10,912,919)</u>
Total capital assets being depreciated, net	<u>15,809,560</u>	<u>208,589</u>	<u>--</u>	<u>16,018,148</u>
Governmental activities capital assets, net	<u>\$ 16,247,107</u>	<u>\$ 208,589</u>	<u>\$ --</u>	<u>\$ 16,455,695</u>

Depreciation was charged to functions as follows:

Instruction	\$ 380,726
Instructional Resources and Media Services	14,932
Curriculum and Staff Development	7,256
Instructional Leadership	8,731
School Leadership	36,901
Guidance, Counseling, & Evaluation Services	25,880
Social Work Services	1,934
Health Services	5,715
Student Transportation	86,043
Food Services	32,170
Extracurricular Activities	32,597
General Administration	26,733
Plant Maintenance and Operations	80,739
Security and Monitoring Services	2,094
Data Processing Services	5,100
Community Services	211
	<u>\$ 747,762</u>

VERNON INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2007

E. Interfund Balances and Activities

1. Due To and From Other Funds

Balances due to and due from other funds at August 31, 2007, consisted of the following:

Due To Fund	Due From Fund	Amount	Purpose
General Fund	Other Governmental Funds	\$ 21,310	Short-term loans
Other Governmental Funds	General Fund	46,440	Short-term loans
	Total	<u>\$ 67,750</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, 2007, consisted of the following:

Transfers From	Transfers To	Amount	Reason
General fund	Other Governmental Funds	\$ 45,395	Supplement other funds sources
	Total	<u>\$ 45,395</u>	

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, 2007, are as follows:

	Beginning Balance	Increases	Decreases	Interest Accretion & Premium Amortization	Ending Balance
Governmental activities:					
Capital appreciation bonds:					
Unlimited Tax Refunding Bonds - Series 1997, 5.1% to 6.15%	\$ 798,442	\$ --	\$ 820,000	\$ 21,558	\$ --
Unlimited Tax Refunding Bonds - Series 2005, 3.88% to 33.43%	4,518,305	--	--	682,881	5,201,186
Bond premium	2,488,833	--	--	(419,959)	2,068,874
Loss on defeasance	(387,622)	--	--	31,009	(356,613)
Capital leases	185,907	--	93,652	--	92,255
Notes (See Below)	516,500	--	95,441	--	421,059
Compensated absences *	194,737	39,913	--	--	234,650
Total governmental activities	<u>\$ 8,315,102</u>	<u>\$ 39,913</u>	<u>\$ 1,009,093</u>	<u>\$ 315,489</u>	<u>\$ 7,661,411</u>

Information on the above Notes payable and Capital leases:

	Rate	Purpose
Note Payable to the Boys and Girls Club	None	Building Purchase
Note Payable to the Waggoner National Bank	5.59%	High School Remodeling Project
Lease Payable to Government Capital Corp	6.31%	Software License

* Other long-term liabilities

VERNON INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2007

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

<u>Liability</u>	<u>Activity Type</u>	<u>Fund</u>
Compensated absences	Governmental	General Fund

2. Debt Service Requirements

Debt service requirements on long-term debt at August 31, 2007, are as follows:

<u>Year Ending August 31,</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 957,797	\$ 28,848	\$ 986,645
2009	869,216	17,675	886,891
2010	870,290	12,100	882,390
2011	876,176	6,215	882,391
2012	760,000		760,000
2013-2017	3,820,000		3,820,000
2018-2022	1,530,000		1,530,000
Totals	<u>\$ 9,683,479</u>	<u>\$ 64,838</u>	<u>\$ 9,748,317</u>

The difference between the cumulative principal debt service requirements and the amount reflected in the summary schedule relates to the remaining accretion of interest on the capital appreciation bonds as well as the amortizations of bond premium and loss on defeasance.

3. Capital Leases

Commitments under capitalized lease agreements for facilities and equipment provide for minimum future lease payments as of August 31, 2007, as follows:

<u>Year Ending August 31:</u>	
2008	\$ 98,254
Total Minimum Rentals	<u>\$ 98,254</u>
Rental Expenditures in 2007	<u>\$ 98,247</u>

The effective interest rate on capital leases is 6.314%.

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 2007, 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. Pension Plan

1. Plan Description

The District contributes to the Teacher Retirement System of Texas (the "System"), a public employee retirement system. It is a cost-sharing, multiple-employer defined benefit pension plan with one exception: all risks and costs are not shared by the District, but are the liability of the State of Texas. The System provides service retirement and disability retirement benefits, and death benefits to plan members and beneficiaries. The System operates primarily under the provisions of the Texas Constitution and Texas Government Code, Title 8, Subtitle C. The Texas legislature has the authority to establish or amend benefit provisions. The System issues a publicly available financial report that

VERNON INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2007

includes financial statements and required supplementary information for the District. That report may be obtained by writing the Teacher Retirement System of Texas, 1000 Red River Street, Austin, TX 78701-2698 or by calling (800) 223-8778.

2. Funding Policy

Under provisions in State law, plan members are required to contribute 6.4% of their annual covered salary and the State of Texas contributes an amount equal to 6.0% of the District's covered payroll. The District's employees' contributions to the System for the years ending August 31, 2007, 2006 and 2005 were \$641,790, \$638,135 and \$647,023, respectively, and were equal to the required contributions for each year. Other contributions made from federal and private grants and from the District for salaries above the statutory minimum for the years ending August 31, 2007, 2006 and 2005 were \$68,019, \$71,619 and \$68,413, respectively, and were equal to the required contributions for each year. The amount contributed by the State on behalf of the District was \$651,272 for the year ended August 31, 2007.

I. 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 collectibility 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, 2007.

J. 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 Fund 437 - SSA Special Education 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	\$ 389,297
Northside ISD	16,593
Harrold ISD	16,593
Total	<u>\$ 422,483</u>

K. Reservation of Fund Balance

The Board of Trustees has reserved \$2,000,000 of Fund Balance for future capital needs of the District.

L. Major Taxpayer

The District receives a substantial portion of its tax revenue from a local utility company. For the year ended August 31, 2007, the revenues from this taxpayer were \$5,156,523. There were no receivables from the taxpayer as of August 31, 2007.

VERNON INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2007

M. 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".

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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, 2007

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	\$ 11,013,763	\$ 11,143,106	\$ 11,280,007	\$	136,901	
5800	State Program Revenues	5,464,291	5,316,541	5,372,976		56,435	
5900	Federal Program Revenues	45,000	2,721	2,721		--	
5020	Total Revenues	<u>16,523,054</u>	<u>16,462,368</u>	<u>16,655,704</u>		<u>193,336</u>	
EXPENDITURES:							
Current:							
Instruction & Instructional Related Services:							
0011	Instruction	9,375,113	8,711,433	8,416,277		295,156	
0012	Instructional Resources and Media Services	371,872	363,117	356,405		6,712	
0013	Curriculum and Staff Development	58,113	62,113	60,342		1,771	
	Total Instruction & Instr. Related Services	<u>9,805,098</u>	<u>9,136,663</u>	<u>8,833,024</u>		<u>303,639</u>	
Instructional and School Leadership:							
0021	Instructional Leadership	163,819	153,819	148,350		5,469	
0023	School Leadership	889,985	948,995	945,890		3,105	
	Total Instructional & School Leadership	<u>1,053,804</u>	<u>1,102,814</u>	<u>1,094,240</u>		<u>8,574</u>	
Support Services - Student (Pupil):							
0031	Guidance, Counseling and Evaluation Services	413,070	415,070	412,240		2,830	
0032	Social Work Services	2,320	2,320	1,661		659	
0033	Health Services	159,241	155,241	152,210		3,031	
0034	Student (Pupil) Transportation	681,722	654,122	635,730		18,392	
0035	Food Services	25,047	25,047	8,185		16,862	
0036	Cocurricular/Extracurricular Activities	658,583	667,143	659,122		8,021	
	Total Support Services - Student (Pupil)	<u>1,939,983</u>	<u>1,918,943</u>	<u>1,869,148</u>		<u>49,795</u>	
Administrative Support Services:							
0041	General Administration	751,889	717,389	706,788		10,601	
	Total Administrative Support Services	<u>751,889</u>	<u>717,389</u>	<u>706,788</u>		<u>10,601</u>	
Support Services - Nonstudent Based:							
0051	Plant Maintenance and Operations	1,932,099	2,187,850	2,143,963		43,887	
0052	Security and Monitoring Services	54,800	48,800	44,847		3,953	
0053	Data Processing Services	124,420	112,420	112,034		386	
	Total Support Services - Nonstudent Based	<u>2,111,319</u>	<u>2,349,070</u>	<u>2,300,844</u>		<u>48,226</u>	
Debt Service:							
0071	Principal on Long-Term Debt	157,105	191,942	191,461		481	
0072	Interest on Long-Term Debt	30,177	30,177	30,177		--	
	Total Debt Service	<u>187,282</u>	<u>222,119</u>	<u>221,638</u>		<u>481</u>	
Capital Outlay:							
0081	Capital Outlay	290,000	661,022	653,137		7,885	
	Total Capital Outlay	<u>290,000</u>	<u>661,022</u>	<u>653,137</u>		<u>7,885</u>	
Intergovernmental Charges:							
0093	Payments to Fiscal Agent/Member Dist.-SSA	415,570	390,150	390,024		126	
	Total Intergovernmental Charges	<u>415,570</u>	<u>390,150</u>	<u>390,024</u>		<u>126</u>	
6030	Total Expenditures	<u>16,554,945</u>	<u>16,498,170</u>	<u>16,068,843</u>		<u>429,327</u>	

VERNON INDEPENDENT SCHOOL DISTRICT

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2007

EXHIBIT G-1

Page 2 of 2

Data Control Codes		1	2	3	Variance with Final Budget Positive (Negative)
		Budgeted Amounts		Actual	
		Original	Final		
1100	Excess (Deficiency) of Revenues Over (Under)				
1100	Expenditures	<u>(31,891)</u>	<u>(35,802)</u>	<u>586,861</u>	<u>622,663</u>
	Other Financing Sources (Uses):				
7912	Sale of Real or Personal Property	3,000	3,298	3,298	--
7915	Transfers In	282,881	218,990	--	(218,990)
8911	Transfers Out	<u>(253,990)</u>	<u>(298,394)</u>	<u>(45,395)</u>	<u>252,999</u>
7080	Total Other Financing Sources and (Uses)	<u>31,891</u>	<u>(76,106)</u>	<u>(42,097)</u>	<u>34,009</u>
1200	Net Change in Fund Balance	--	<u>(111,908)</u>	<u>544,764</u>	<u>656,672</u>
0100	Fund Balance - Beginning	<u>3,958,741</u>	<u>3,958,741</u>	<u>3,958,741</u>	--
3000	Fund Balance - Ending	<u>\$ 3,958,741</u>	<u>\$ 3,846,833</u>	<u>\$ 4,503,505</u>	<u>\$ 656,672</u>