

VERNON COLLEGE

ANNUAL FINANCIAL REPORT

FOR THE YEARS ENDED AUGUST 31, 2016 AND 2015

VERNON COLLEGE
ANNUAL FINANCIAL REPORT
FOR THE YEARS ENDED AUGUST 31, 2016 AND 2015

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Organizational Information

**Vernon College
Organizational Data
August 31, 2016**

Board of Trustees

<u>Officers</u>	<u>Term Expires</u>
Dr. Todd Smith Chairman	May 1, 2022
Mr. Norman Brints Vice-Chairman	May 1, 2020
Mrs. Vicki Pennington Secretary	May 1, 2022

<u>Members</u>	<u>Term Expires</u>
Mr. Bob Ferguson	May 1, 2018
Mrs. Joanie Rogers	May 1, 2018
Mr. Irl Holt	May 1, 2018
Mrs. Anne Spears	May 1, 2020

Principal Administrative Officers

Dr. Dusty R. Johnston	President
James P. Nordone	Dean of Student Services
Mr. Garry David, CPA	Dean of Administrative Services
Dr. Gary Don Harkey	Dean of Instructional Services
Mr. Joe Hite	Dean of Admissions and Financial Aid/Registrar
Mrs. Kristin Harris	Associate Dean of Student Services
Mrs. Shana Drury	Associate Dean of Instructional Services

Financial Section



EDGIN, PARKMAN, FLEMING & FLEMING, PC

CERTIFIED PUBLIC ACCOUNTANTS

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WICHITA FALLS, TEXAS 76307-0750
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MICHAEL D. EDGIN, CPA
DAVID L. PARKMAN, CPA
A. PAUL FLEMING, CPA

Independent Auditor's Report

Board of Trustees
Vernon College
Vernon, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of Vernon College, as well as its discretely presented component unit, Vernon College Foundation, Incorporated, as of and for the years ended August 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Vernon College and its discretely presented component unit, Vernon College Foundation, Inc., as of August 31, 2016 and 2015, and the respective changes in financial position, and, where applicable, cash flows thereof for the years 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 on pages 4–9, the Schedule of College's Share of Pension Liability – Teacher Retirement System of Texas and the Schedule of College's Contributions – Teacher Retirement System of Texas on pages 36-37 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 Vernon College's basic financial statements. The other supplementary information and statistical section are presented for purposes of additional analysis and are not a required part 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 other supplementary information, schedule of expenditures of federal awards, and schedule of expenditures of state 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 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 financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information, schedule of expenditures of federal awards and schedule of expenditures of state awards are fairly stated in all material respects in relation to the financial statements as a whole.

The statistical 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 2, 2016, on our consideration of Vernon College'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 College's internal control over financial reporting and compliance.

Respectfully submitted,



EDGIN, PARKMAN, FLEMING & FLEMING, PC

December 2, 2016



Business Office

www.vernoncollege.edu

Vernon Campus 4400 College Drive Vernon, TX 76384 940.552.6291	Century City Center 4105 Maplewood Ave. Wichita Falls, TX 76308 940.696.8752	Skills Training Center 2813 Central Expressway E Wichita Falls, TX 76302 940.766.3369	Sheppard Learning Center 426 5th Avenue, Suite 8 Sheppard AFB, TX 76311 940.855.2203	Seymour Learning Center 200 Stadium Drive Seymour, TX 76380 940.889.3133
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Management's Discussion and Analysis

This section of Vernon College's annual financial report presents a discussion and analysis of the College's financial performance during the fiscal year ended August 31, 2016. Please read it in conjunction with the College's basic financial statements and notes, which follow this section. Responsibility for the completeness and fairness of the information in this section rests with the College's management.

Overview of the Financial Statements

The financial statement presentation is mandated by Governmental Accounting Standards Board (GASB) Statement No. 34. For financial statement purposes, the College is considered a special-purpose government engaged only in business-type activities. Accordingly, the financial statements of the College are presented using the economic measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized as obligations are incurred. Discussion of the College's basic financial statement follows.

The *Statement of Net Position* presents information on the College's assets and deferred outflows of resources, and liabilities and deferred inflows of resources, with the difference between these reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the College's financial position is improving or deteriorating.

	2016	2015	2014
Current Assets			
Cash and cash equivalents	\$ 943,212	\$ 1,845,088	\$ 1,401,212
Short-term investments	2,285,000	2,915,000	2,915,000
Accounts receivable - net	2,689,212	1,509,269	1,490,726
Inventories	641,400	686,751	869,394
Other assets and prepaid assets	3,163,052	3,169,082	3,347,690
Total Current Assets	<u>9,721,876</u>	<u>10,125,190</u>	<u>10,024,022</u>
Noncurrent Assets			
Restricted cash and cash equivalents	94,571	68,790	192,940
Endowment investments	1,530,000	1,675,000	1,852,100
Capital assets - net	21,321,573	21,905,342	22,707,695
Total Noncurrent Assets	<u>22,946,144</u>	<u>23,649,132</u>	<u>24,752,735</u>
Total Assets	<u>32,668,020</u>	<u>33,774,322</u>	<u>34,776,757</u>
Deferred Outflows of Resources	<u>2,069,397</u>	<u>616,828</u>	<u>43,807</u>
Current Liabilities			
Accounts payable and accrued liabilities	593,504	587,966	513,952
Unearned revenues	5,529,685	5,357,955	5,437,707
Capital lease and bonds payable	713,423	632,777	613,393
Total Current Liabilities	<u>6,836,612</u>	<u>6,578,698</u>	<u>6,565,052</u>

Noncurrent Liabilities			
Deposits and accrued liabilities	75,570	86,611	85,457
Net Pension Obligation	3,801,335	3,264,692	-
Capital lease and bonds payable	9,540,227	10,349,017	10,990,522
Total Noncurrent Liabilities	<u>13,417,132</u>	<u>13,700,320</u>	<u>11,075,979</u>
Total Liabilities	<u>20,253,744</u>	<u>20,279,018</u>	<u>17,641,031</u>
Deferred Inflows Of Resources	<u>1,366,431</u>	<u>998,679</u>	<u>-</u>
Net Position			
Net investment in capital assets	11,653,226	10,962,975	11,147,587
Restricted for student aid	1,526,525	1,542,110	1,697,344
Restricted for debt service	975,289	979,687	975,828
Unrestricted	(1,037,798)	(371,319)	3,358,774
Net Position	<u>\$ 13,117,242</u>	<u>\$ 13,113,453</u>	<u>\$ 17,179,533</u>

Current assets decreased by \$403,314 from 2015 to 2016. This is a result of cash and investments used as a part of the bond refinancing. The small fluctuation from 2014 to 2015 is generally attributable to timing differences related to enrollment.

Capital assets, net of depreciation, have been gradually decreasing since 2014 as a result of lower capital spending and an increase in depreciation expense attributed to significant capital investments made during 2012.

Due to implementation of GASB 68 related to recognition of the College's proportionate share of the TRS pension liability, the College recorded deferred outflows and inflows of resources related to actuarial assumptions and contributions made subsequent to the pension liability measurement date.

Current liabilities tend to fluctuate modestly year to year due to timing of enrollment, similar to the fluctuations in current assets.

Prior to 2015, noncurrent liabilities had shown a steady decrease due to scheduled payments on capital leases and bonds. In 2015, the College recognized \$3,264,692 of Net Pension Obligation due to the adoption of GASB 68. 2016 again saw a significant decrease due to scheduled payments of capital leases and bonds and an advance refunding of Series 2004 and 2010 bond payments.

Net position restricted for student aid continues a steady decrease as more and more endowed scholarship funds are transferred to the Vernon College Foundation at donors' requests to try to increase earnings. Unrestricted net position showed a significant decrease compared to 2015 as a result of the bond refinancing and the loss of a State nursing grant.

The 2015 financial statements included a prior period adjustment which reduced beginning net position by \$3,695,550 due to implementation of GASB 68 which requires reporting of certain pension liabilities.

The *Statement of Revenues, Expenses, and Changes in Net Position* is a statement of activities. Revenues are presented as operating (program) revenue and non-operating (general) revenue. Expenses are reported by function. Functional expenses are defined as the "direct" expense specifically associated with a function and would not include allocations of indirect expenses. The functional categories for expenses are instruction, public service, academic support, student services, institutional support, operation and maintenance of plant, scholarships and fellowships, auxiliary enterprises, and depreciation expense. The net position section of this report has three components, net investment in capital assets, restricted (nonexpendable or expendable), and unrestricted.

	2016	2015	2014
REVENUES			
Operating Revenues:			
Tuition and fees (net of discounts of \$6,241,565, \$5,956,619 and \$5,954,257, respectively)	\$ 4,589,733	\$ 4,864,086	\$ 4,880,953
Federal grants and contracts	761,962	266,912	234,829
State grants and contracts	327,546	732,620	900,845
Non-governmental grants and contracts	1,005,074	945,811	899,800
Sales and services of educational activities	122,003	114,134	112,937
Investment program (program restricted)	5,587	7,711	7,099
Auxiliary enterprises (net of discounts of \$821,043, \$1,011,010 and \$1,067,531, respectively)	1,247,495	1,194,767	1,261,227
General operating revenues	-	-	19,949
Total Operating Revenues	<u>8,059,400</u>	<u>8,126,041</u>	<u>8,317,639</u>
EXPENSES			
Operating Expenses:			
Instruction	8,456,979	8,319,528	8,080,853
Public services	520,316	524,081	514,862
Academic support	2,687,735	2,688,021	2,769,920
Student services	2,023,111	1,941,002	1,872,380
Institutional support	3,591,913	3,254,711	3,130,822
Operation of physical plant	2,130,759	2,184,102	2,249,417
Scholarships and fellowships	320,362	1,544,790	1,886,033
Auxiliary enterprises	2,111,369	2,001,137	2,034,033
Depreciation	864,837	900,450	905,420
Total Operating Expenses	<u>22,707,381</u>	<u>23,357,822</u>	<u>23,443,740</u>
Operating Loss	<u>(14,647,981)</u>	<u>(15,231,781)</u>	<u>(15,126,101)</u>
Non-Operating Revenue (Expenses)			
State Appropriations	6,935,691	6,791,015	6,709,002
Property taxes for maintenance & operation	2,718,006	2,648,716	2,661,134
Federal Revenue, Non-Operating	5,120,750	5,580,294	5,899,152
Gifts	203,655	235,821	188,802
Investment income	11,506	24,109	19,721
Gain (loss) on disposal of assets	(3,672)	(14,198)	-
Lease income less lease expenses	17,908	15,018	11,150
Interest and fees on capital related debt	(352,074)	(419,524)	(438,772)
Net Non-Operating Revenue (Expenses)	<u>14,651,770</u>	<u>14,861,251</u>	<u>15,050,189</u>
Increase (decrease) in Net Position	<u>\$ 3,789</u>	<u>\$ (370,530)</u>	<u>\$ (75,912)</u>

Operating revenues are separated into several categories. Student tuition and fees remained a major source of revenue for 2016. Net tuition and fee revenue has been in a slow decline the past three years as a result of decreasing enrollment. State and Local grants have steadily decreased since 2014 due to Skills Development Grants winding down and not being replaced. The effective earnings rate for investments continues to decrease as rates across most national markets decreased for the year. Net auxiliary enterprises revenue (mainly bookstore sales) reflected a modest increase after several years of declines due to increased focus on higher margin items.

Operating expenses decreased by \$650,441 compared to 2015. The decrease was made up of several factors. A 1.50% salary increase for all employees and increases in health insurance premiums was offset by operating expense reductions throughout the College mainly in the areas of utilities and maintenance costs. Scholarships, those not credited directly to tuition and fees, also saw a significant decrease compared to 2015 as Pell awards were reduced significantly and rising tuition and fees costs use a bigger portion of all financial aid. 2015 reflected a slight decrease compared to 2014.

Property tax revenue remained steady as the Board of Trustees continues to hold the line at the effective rate. The tax rate of the district remains one of the highest among community colleges in the state.

The primary purpose of the *Statement of Cash Flows* is to provide relevant information about the cash receipts and cash payments of an entity during the fiscal period. The statement explains the changes during the period in cash and cash equivalents regardless of whether there are restrictions on their use. The total amount of cash and cash equivalents at the beginning and end of the period shown in the statement are easily traceable to similarly titled items or subtotals shown on the Statement of Net Position. First, the statement reports the effects during the period of operations, capital financing, non-capital financing, and investing transactions. Secondly, related information reports the investing, capital, and financing transactions that affect financial position but do not directly affect cash flows during the period. Finally, a reconciliation of operating income to net cash from operating activities is provided.

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Cash Flows From:			
Operating activities	\$ (12,884,600)	\$ (12,767,129)	\$ (13,885,822)
Noncapital financing activities	12,569,049	13,964,566	14,252,385
Capital and related financing activities	(1,364,958)	(1,093,938)	(1,073,658)
Investing activities	<u>804,414</u>	<u>216,227</u>	<u>(814,130)</u>
Net increase (decrease) in cash	(876,095)	319,726	(1,521,225)
Cash and cash equivalents - beginning of year	<u>1,913,878</u>	<u>1,594,152</u>	<u>3,115,377</u>
Cash and cash equivalents - end of year	<u>\$ 1,037,783</u>	<u>\$ 1,913,878</u>	<u>\$ 1,594,152</u>

The primary cash receipts from operating activities consist of tuition and grants and contracts. Cash outlays include payment of wages, benefits, supplies, and scholarships.

State allocations, Federal Title IV Grants, and property taxes are the main sources of noncapital financing activities. This source of revenue is categorized as non-operating even though the College's budget depends on these sources to continue the current level of operations of the physical plant and educational and administrative departments.

The main capital and related financing activities include construction and renovation projects and payments on capital debt. Capital purchases for 2015-2016 included initial payments on our new Enterprise Resource Planning/Student Information System, a new van for the Century City maintenance department, upgrading the sprinkler system for the baseball field, a new A/C unit at the Skills Center and several new Perkins funded training machines. Major purchases during 2014-2015 included a wheel alignment system, 4 Compact Logic trainers, and other lab and specialty equipment, mainly through Perkins funds. Significant purchases for 2013-2014 included a new parking lot at Congregate Meals, Seal Coat dorm parking lot, new robotics teaching equipment and an expansion of the rodeo facilities.

Principal paid on debt was \$728,144 for 2016, \$622,121 for 2015 and \$602,586 for 2014. Interest and fees paid on capital debt totaled \$352,074 in 2016, \$419,522 in 2015 and \$438,772 in 2014.

Investing activities reported include lease income from the King Farm in excess of the related expenses of \$17,908 for 2016, \$15,018 for 2015 and \$11,150 for 2014. Investing activities also reflects interest income earned on investments.

Reporting of Component Unit

Reported within this report is Exhibit 1A, 2A, and 3A. Vernon College Foundation, Incorporated was established as a separate nonprofit organization in 1985. The unit raises funds to provide student scholarships and departmental grants. Exhibit 1A reports net assets increased by \$306,059 to \$4,588,257 at the close of 2016. Gifts and contributions including transfers from the College Endowment Fund, realized gains, and unrealized gains or losses on investments are the major sources of revenue. Operating expense, investment advisory fees, and transfers to Vernon College are the expenses.

Analysis of the College's Overall Financial Position

The overall financial position of the College is very good. The *Statistical Supplement Section* of this report reflects many positive changes. Fall credit head count enrollment has grown from 2,095 in 2000 to a high of 3,247 in 2011 but has slowly declined to 2,891 in the Fall of 2015. Trends in student tuition and fee revenue as well as state appropriations are reported on statistical supplement 2.

The College taxing district is Wilbarger County, Texas. Ad valorem taxes are assessed and collected by the Wilbarger County Tax Assessor/Collector for the College based on the valuation of real property and minerals on January 1. Taxable values are determined by the Wilbarger County Appraisal District. Taxable values have been gradually trending upward with an increase from 2005 to 2015 of \$431,379,770 or 53.55%. This increase has allowed us to gradually decrease our tax rate. The approved tax rate per \$100 of valuation decreased from \$.24993 in 2005 to \$.22000 in 2016.

Significant Capital Assets and Long-term Debt Activity

As mentioned previously in the discussion of the statement of net position, the College's investment in capital assets decreased by \$232,604 from \$11,147,587 in 2014 to \$10,914,983 in 2016. This decrease is a combination of capitalizing additions purchased from current funds during the year, recording depreciation expense and payment of long term debts. More details on the College's accounting policies for capital assets and current year activity can be found in the footnotes to the financial statements.

The College's total long-term debt increased from \$11,075,979 to \$13,382,132, or \$2,306,153 from 2014 until 2016 as a result of booking a Net Pension Obligation of \$3,264,692 in 2015 in conjunction with implementing GASB 68 and paying scheduled debt payments. Payments totaling \$873,684, of which \$713,423 is principal, are scheduled to be made in 2017 under the College's revenue bonds and capital lease. Moody's rates the College as A-3 stable. The notes to the financial statements contain additional information concerning the debt structures for the College.

Discussion of Current Known Facts, Decisions, or Conditions

Enrollment for the fall of 2011 was at an all-time record of 3,247. Since then we have experienced a gradual decline with enrollment for fall 2015 totaling 2,891. Indications are that most Community Colleges in Texas are seeing similar declines. A committee was created several years ago to assist in the planning for technology advancement expenditures. A report of all technology needs from each department and division has been prepared for the past four years. The report has been integrated into the strategic planning, annual planning and assessment, and budget processing for the College. Technology advances are being addressed and met within all areas of the institution.

the strategic planning, annual planning and assessment, and budget processing for the College. Technology advances are being addressed and met within all areas of the institution.

Contacting the College's Financial Management

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

Basic Financial Statements

Vernon College
Exhibit 1
Statements of Net Position
August 31, 2016 and 2015

	2016	2015
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 943,212	\$ 1,845,088
Short-term investments	2,285,000	2,915,000
Accounts receivable (net)	2,689,212	1,509,269
Deferred charges	3,054,267	2,963,824
Inventories	641,400	686,751
Prepaid expenses	108,785	205,258
Total Current Assets	9,721,876	10,125,190
Noncurrent Assets		
Restricted cash and cash equivalents	94,571	68,790
Endowed Investments	1,530,000	1,675,000
Capital assets (net)	21,321,573	21,905,342
Total Noncurrent Assets	22,946,144	23,649,132
Total Assets	32,668,020	33,774,322
Deferred Outflows of Resources		
Refunding loss	585,303	39,427
Pension plan related deferred outflows of resources	1,484,094	577,401
Total Deferred Outflows of Resources	2,069,397	616,828
LIABILITIES		
Current Liabilities		
Accounts payable	349,081	368,258
Accrued compensable absences - current portion	226,711	202,091
Deposits	17,712	17,617
Unearned revenues	5,529,685	5,357,955
Capital leases payable - current portion	158,423	147,777
Bonds payable - current portion	555,000	485,000
Total Current Liabilities	6,836,612	6,578,698
Noncurrent Liabilities		
Accrued compensable absences	75,570	86,611
Net pension obligation	3,801,335	3,264,692
Capital leases payable	259,680	418,103
Bonds payable	9,280,547	9,930,914
Total Noncurrent Liabilities	13,417,132	13,700,320
Total Liabilities	20,253,744	20,279,018
Deferred Inflows of Resources		
Pension plan related deferred inflows of resources	1,366,431	998,679
NET POSITION		
Net investment in capital assets	11,653,226	10,962,975
Restricted for:		
Nonexpendable:		
Student Aid	1,526,525	1,542,110
Expendable:		
Debt Service	975,289	979,687
Unrestricted	(1,037,798)	(371,319)
Total Net Position	\$ 13,117,242	\$ 13,113,453

The Notes to the Financial Statements are an integral part of the financial statements.

Vernon College
Exhibit 1A
Vernon College Foundation, Incorporated
Statements of Financial Position
August 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and cash equivalents	\$ 115,248	\$ 178,123
Investments	4,448,439	4,044,075
Pledges receivable	<u>30,000</u>	<u>60,000</u>
Total assets	<u>\$ 4,593,687</u>	<u>\$ 4,282,198</u>
 LIABILITIES		
Accounts payable	<u>\$ 5,430</u>	<u>\$ -</u>
 NET ASSETS		
Unrestricted	391,420	266,659
Permanently restricted	<u>4,196,837</u>	<u>4,015,539</u>
Total net assets	<u>4,588,257</u>	<u>4,282,198</u>
Total liabilities and net assets	<u>\$ 4,593,687</u>	<u>\$ 4,282,198</u>

The Notes to the Financial Statements are an integral part of the financial statements.

Vernon College
Exhibit 2
Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended August 31, 2016 and 2015

	2016	2015
REVENUES		
Operating Revenues		
Tuition and fees (net of discounts of \$6,241,565 and \$5,956,619, respectively)	\$ 4,589,733	\$ 4,864,086
Federal grants and contracts	761,962	266,912
State grants and contracts	327,546	732,620
Non-governmental grants and contracts	1,005,074	945,811
Sales and services of educational activities	122,003	114,134
Investment income (program restricted)	5,587	7,711
Auxiliary enterprises (net of discounts of \$821,043 and \$1,011,010, respectively)	1,247,495	1,194,767
Total Operating Revenues (Sch A)	8,059,400	8,126,041
EXPENSES		
Operating Expenses		
Instruction	8,456,979	8,319,528
Public services	520,316	524,081
Academic support	2,687,735	2,688,021
Student services	2,023,111	1,941,002
Institutional support	3,591,913	3,254,711
Operation and maintenance of plant	2,130,759	2,184,102
Scholarships and fellowships	320,362	1,544,790
Auxiliary enterprises	2,111,369	2,001,137
Depreciation	864,837	900,450
Total Operating Expenses (Sch B)	22,707,381	23,357,822
Operating Loss	(14,647,981)	(15,231,781)
Non-Operating Revenues (Expenses)		
State Appropriations	6,935,691	6,791,015
Property taxes for maintenance & operation	2,718,006	2,648,716
Federal Revenue, Non-Operating	5,120,750	5,580,294
Gifts	203,655	235,821
Investment income	11,506	24,109
Gain/(Loss) on Disposal of Assets	(3,672)	(14,198)
Lease income	24,929	18,516
Operational costs of lease property	(7,021)	(3,498)
Interest and fees on capital related debt	(352,074)	(419,524)
Net Non-Operating Revenues (Expenses) (Sch C)	14,651,770	14,861,251
Increase (decrease) in Net Position	3,789	(370,530)
Net Position		
Beginning net position, as previously stated	13,113,453	17,179,533
Prior Period Adjustments	-	(3,695,550)
	13,113,453	13,483,983
Ending net position	\$ 13,117,242	\$ 13,113,453

The Notes to the Financial Statements are an integral part of the financial statements.

Vernon College
Exhibit 2A
Vernon College Foundation, Incorporated
Statements of Activities
For the Years Ended August 31, 2016 and 2015

	2016	2015
Revenues and support:		
Gifts and contributions	\$ 457,309	\$ 1,506,653
Silent auction	6,108	7,932
Investment income	194,175	162,860
Realized gains (losses) on investments	(70,047)	144,777
Unrealized gains (losses) on investments	146,259	(475,332)
Other income	7,215	-
	<u>741,019</u>	<u>1,346,890</u>
Expenses:		
Operating expenses	16,324	7,692
Investment advisory fees	36,876	31,944
Departmental Grants	15,137	14,205
Restricted Gifts transfer to Vernon College	199,960	70,000
Scholarship transfer	166,663	171,288
	<u>434,960</u>	<u>295,129</u>
Increase (decrease) in net assets	306,059	1,051,761
Net assets at beginning of year	<u>4,282,198</u>	<u>3,230,437</u>
Net assets at end of year	<u>\$4,588,257</u>	<u>\$ 4,282,198</u>

The Notes to the Financial Statements are an integral part of the financial statements.

Vernon College
Exhibit 3
Statements of Cash Flows
For the Years Ended August 31, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from students and other customers	\$ 6,066,994	\$ 6,083,521
Receipts of appropriations, grants and contracts	1,857,668	1,882,224
Other receipts	207,588	22,440
Payments to or on behalf of employees	(14,127,554)	(13,963,307)
Payments to suppliers for goods and services	(6,568,934)	(5,247,217)
Payments of scholarships	(320,362)	(1,544,790)
Net cash used by operating activities	(12,884,600)	(12,767,129)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State allocations	5,607,701	5,520,176
Federal Title IV Grants	4,048,636	5,583,466
Property taxes for maintenance and operations	2,709,057	2,685,103
Gifts to endowment	203,655	175,821
Net cash provided by noncapital financing activities	12,569,049	13,964,566
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Gifts restricted for construction of capital assets	-	60,000
Purchases and construction of capital assets	(284,740)	(112,295)
Principal paid on capital debt	(728,144)	(622,121)
Interest and fees paid on capital debt	(352,074)	(419,522)
Net cash used by capital and related financing activities	(1,364,958)	(1,093,938)
CASH FLOWS FROM INVESTING ACTIVITIES		
Lease income	24,929	18,516
Operating costs of lease property	(7,021)	(3,498)
Sales of short-term investments	775,000	177,100
Investment income	11,506	24,109
Net cash provided (used) by investing activities	804,414	216,227
Increase (decrease) in cash and cash equivalents	(876,095)	319,726
Cash and cash equivalents - beginning of year	1,913,878	1,594,152
Cash and cash equivalents - end of year	\$ 1,037,783	\$ 1,913,878
Displayed as:		
Cash and cash equivalents	\$ 943,212	\$ 1,845,088
Restricted cash and cash equivalents	94,571	68,790
	\$ 1,037,783	\$ 1,913,878
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	\$ (14,647,981)	\$ (15,231,781)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	864,837	900,450
Pension adjustments	(2,297)	(9,580)
Payments for benefits made directly by state	1,327,990	1,270,837
(Increase) decrease in current assets:		
Accounts receivable, net (adjusted for non-operating items)	(98,881)	(58,102)
Inventories	45,351	182,643
Deferred charges	(636,319)	135,333
Prepaid expenses	96,473	47,655
Increase (decrease) in current liabilities:		
Accounts payable	(19,177)	71,882
Accrued compensable absences	13,579	3,846
Unearned revenues	171,730	(79,752)
Deposits	95	(560)
Net cash used by operating activities	\$ (12,884,600)	\$ (12,767,129)

The Notes to the Financial Statements are an integral part of the financial statements.

Vernon College
Exhibit 3A
Vernon College Foundation, Incorporated
Statements of Cash Flows
For the Years Ended August 31, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Receipts of gifts	\$ 487,309	\$ 1,536,652
Proceeds from Silent Auction	6,108	7,932
Other income	7,215	-
Payments to suppliers for goods and services	(47,770)	(39,636)
Restricted Gifts transferred to Vernon College	(199,960)	(70,000)
Payment of scholarships and grants	(181,800)	(185,494)
Net cash provided (used) by operating activities	71,102	1,249,455
Cash flows from investing activities:		
Sales proceeds on sales of investments	597,060	2,474,508
Purchase of investments	(925,212)	(3,833,738)
Investment income	194,175	162,859
Net cash provided (used) by investing activities	(133,977)	(1,196,371)
Increase (decrease) in cash and cash equivalents	(62,875)	53,084
Cash and cash equivalents at beginning of year	178,123	125,039
Cash and cash equivalents at end of year	\$ 115,248	\$ 178,123
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ 306,059	\$ 1,051,761
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Investment income	(194,175)	(162,859)
Realized gain on sale of investments	70,047	(144,779)
Unrealized gain (loss) on investments held	(146,259)	475,332
(Increase) decrease in operating assets:		
Pledges receivable	30,000	30,000
Increase (decrease) in operating liabilities:		
Accounts payable	5,430	-
Net cash provided (used) by operating activities	\$ 71,102	\$ 1,249,455

The Notes to the Financial Statements are an integral part of the financial statements.

VERNON COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED AUGUST 31, 2016 AND 2015

1. Reporting Entity

The Wilbarger County Junior College District (Vernon College) was established in 1970, in accordance with the laws of the State of Texas, to serve the educational needs of the public of Wilbarger County and surrounding communities. Vernon College (College) is considered a special purpose, primary government according to the definition in Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity". While the College receives funding from local, state and federal sources, and must comply with spending, reporting, and recordkeeping requirements of these entities, it is not a component unit of any governmental entity.

Vernon College Foundation, Incorporated (Foundation) was established as a separate nonprofit organization in 1985 to raise funds to provide student scholarships and assistance in the development and growth of the College. Under GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units" as amended by GASB Statement No. 61, "The Financial Reporting Entity: Omnibus", an organization should be reported as a discretely presented component unit if those entities raise and hold economic resources for the direct benefit of a government unit. Accordingly, the Foundation's financial statements are included in the College's Annual Financial Report as a discretely presented component unit.

2. Summary of Significant Accounting Policies

A. Reporting Guidelines

The significant accounting policies followed by the College in preparing these financial statements are in accordance with the *Texas Higher Education Coordinating Board's Annual Financial Reporting Requirements for Texas Public Community and Junior Colleges*. The College applies all applicable GASB pronouncements. The College is reported as a special-purpose government engaged in business-type activities.

B. Tuition Discounting

1. Texas Public Education Grants

Certain tuition amounts are required to be set aside for use as scholarships by qualifying students. This set aside amount, called the Texas Public Education Grant (TPEG), is shown with tuition and fee revenue amounts as a separate set aside amount (Texas Education Code §56.0333). When the award for tuition is used by the student, the amount is recorded as tuition and a corresponding amount is recorded as a tuition discount. If the amount is dispersed directly to the student, the amount is recorded as a scholarship expense.

2. Title IV, Higher Education Act (HEA) Program Funds

Certain Title IV HEA Program Funds are received by the College to pass through to the student. These funds are initially received by the College and recorded as restricted revenue. When the student is awarded and uses these funds for tuition and fees, the amounts are recorded as revenue and a corresponding amount is recorded as a tuition discount. If the amount is dispersed directly to the student, the amount is recorded as a scholarship expense.

3. Other Tuition Discounts

The College awards tuition and fee scholarships from institutional funds to students who qualify. When these amounts are used for tuition and fees, the amounts are recorded as tuition and fee revenue and a corresponding amount is recorded as a tuition discount. If the amount is dispersed directly to the student, the amount is recorded as a scholarship expense.

VERNON COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED AUGUST 31, 2016 AND 2015

C. Basis of Accounting

The financial statements of the College have been prepared on the accrual basis whereby all revenues are recorded when earned and all expenses are recorded when they have been reduced to a legal or contractual obligation to pay.

D. Budgetary Data

Each community college in Texas is required by law to prepare an annual operating budget of anticipated revenues and expenditures for the fiscal year beginning September 1. The College's Board of Trustees adopts the budget, which is prepared on the accrual basis of accounting. A copy of the approved budget and subsequent amendments must be filed with the Texas Higher Education Coordinating Board, Legislative Budget Board, Legislative Reference Library, and Governor's Office of Budget and Planning by December 1.

E. Cash and Cash Equivalents

The College's cash and cash equivalents are considered to be cash on hand, demand deposits, and short term investments with original maturities of three months or less from the date of acquisition.

F. Deferred Outflows

In addition to assets, the College is aware that the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. Governments are permitted only to report deferred outflows in circumstances specifically authorized by the GASB. A typical deferred outflow for community colleges is a deferred charge on refunding debt.

G. Investments

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, investments are reported at fair value. Fair values are based on published market rates. Short-term investments have an original maturity greater than three months but less than one year at the time of purchase. Long-term investments have an original maturity of greater than one year at the time of purchase.

H. Other Assets

Other assets include expenses paid in advance that pertain to the subsequent fiscal year. An example is Pell grants disbursed to students in August for fall classes.

I. Inventories

Inventories consist of bookstore stock. Inventories are valued at the lower of cost or market value under the first-in, first-out method and are charged to expense as consumed.

J. Prepaid Expenses

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

VERNON COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED AUGUST 31, 2016 AND 2015

K. Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation. The College's capitalization policy includes real or personal property with a value equal to or greater than \$5,000 and has an estimated useful life of greater than one year. The College reports depreciation under a single line item as a business-type unit. Depreciation is computed using the straight-line method over the estimated useful lives of the assets applying the half-year convention. The following lives are used:

Buildings	20-50 years
Land Improvements	20 years
Furniture, Machinery, Vehicles and Other Equipment	10 years
Telecommunications and Computer Equipment	5 years
Library Books	15 years

L. Pensions

The College participates in the Teacher Retirement System of Texas (TRS) Pension Plan, a multiple-employer cost sharing defined benefit pension plan with a special funding situation. The fiduciary net position of the Teacher Retirement System of Texas (TRS) has been determined on 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's 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.

M. Unearned Revenues

Tuition and fees of \$4,967,034 and \$4,706,983 and federal, state and local grants of \$266,905 and \$359,989 have been reported as unearned revenues at August 31, 2016 and 2015, respectively. Auxiliary enterprise revenues, including meal and dorm rent, and other revenues unearned totaled \$295,745 and \$290,983 at August 31, 2016 and 2015, respectively.

N. Deferred Inflows

In addition to liabilities, the College is aware that the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so is not recognized as an inflow of resources (revenue) until that time. Governments are permitted only to report deferred inflows in circumstances specifically authorized by the GASB.

O. Income Taxes

The College is exempt from federal income taxes under Internal Revenue Code Section 115, "Income of States, Municipalities, Etc.", although unrelated business income may be subject to income taxes under Internal Revenue Code Section 511(a)(2)(B), "Imposition of Tax on Unrelated Business Income of Charitable, Etc. Organizations". The College had no unrelated business tax liability for the years ended August 31, 2016 and 2015.

The Foundation is exempt from federal income taxes under Internal Revenue Code Section 501(c)(3).

P. Estimates

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

VERNON COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED AUGUST 31, 2016 AND 2015

Q. Operating and Non-Operating Revenue and Expense Policy

The College distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the College's principal ongoing operations. The principal operating revenues are tuition and related fees. The major non-operating revenues are state allocations, federal revenues, property tax collections, and lease income. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets.

The food service operation is not performed by the College, but has been contracted out to a company under an annual agreement. The College pays the contractor a per-meal rate with no guarantee or commitment and the contractor uses the College's cafeteria and dining hall to conduct its operations.

R. Net Position

1. Net Investment in Capital Assets

This item consists of capital assets, including restricted capital assets net of accumulated depreciation that are reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

2. Restricted Nonexpendable

These are net position that are required to be retained in perpetuity, such as permanent endowments or permanent fund principal amounts. Some examples of nonexpendable assets are scholarships, fellowships, and research.

3. Restricted Expendable

These are net position that are restricted due to constraints placed on the assets either by external creditors such as debt covenants, grantors, or imposed by laws or regulations of other governments. This does not include net position restricted by the College's governing board. Some examples are scholarships and fellowships, research, instructional department uses, loans, capital projects, and debt service.

4. Unrestricted Net Position

This item consists of net position not meeting the definition of "restricted" or "net investment in capital assets." The distribution of this net position must not be presented on the face of the financial statement, but may be presented in the notes. When an expense is incurred that can be paid using either restricted or unrestricted resources, the College's policy is to first apply the expense towards restricted resources and then towards unrestricted resources.

3. Authorized Investments

The College is authorized to invest in obligations and instruments as defined in the Public Funds Investment Act (Sec. 2256.001 Texas Government Code). Such investments include (1) obligations of the United States or its agencies, (2) direct obligations of the State of Texas or its agencies, (3) obligations of political subdivisions rated not less than A by a national investment firm, (4) certificates of deposit, and (5) other instruments and obligations authorized by statute.

4. Deposits and Investments

The College'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 College's agent bank approved pledged securities in an amount sufficient to protect College 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.

VERNON COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED AUGUST 31, 2016 AND 2015

Cash Deposits

At August 31, 2016 and 2015, the carrying amount of the College's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$4,852,783 and \$6,503,880, respectively, and the bank balance was \$5,104,099 and \$6,816,670, respectively. The College's cash deposits at August 31, 2016 and 2015 were entirely covered by FDIC insurance or by pledged collateral held by the College's agent bank in the College's name.

Investments

The College is required by Government Code Chapter 2256, The Public Funds Investment Act (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 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 College adhered to the requirements of the Act. Additionally, investment practices of the College were in accordance with local policies.

The Act determines the types of investments which are allowable for the College. These include, with certain restrictions, (1) obligations of the United States or its agencies, (2) direct obligations of the State of Texas or its agencies, (3) obligations of political subdivisions rated not less than A by a national investment rating firm, (4) certificates of deposit, and (5) other instruments and obligations authorized by statute.

The College's investments at August 31, 2016 and 2015 are as follows:

<u>Investment or Investment Type</u>	<u>August 31, 2016</u>		<u>August 31, 2015</u>	
	<u>Weighted Maturity (Months)</u>	<u>Fair Value</u>	<u>Weighted Maturity (Months)</u>	<u>Fair Value</u>
Certificates of deposit	9.37	\$3,815,000	6.36	\$4,590,000

The Foundation's investments at August 31, 2016 and 2015 are shown below:

	<u>2016</u>	<u>2015</u>
Mutual funds	<u>\$ 4,448,439</u>	<u>\$ 4,044,075</u>
Total aggregate cost	<u>\$ 4,302,180</u>	<u>\$ 4,519,406</u>

Analysis of Specific Deposit and Investment Risks

GASB Statement No. 40 requires a determination as to whether the College 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 College was not significantly exposed to credit risk.

VERNON COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED AUGUST 31, 2016 AND 2015

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 College'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 College's name.

At year end, the College 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 College 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 College 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 College was not exposed to foreign currency risk.

Investment Accounting Policy

The College'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.

Fair Value of Financial Instruments

If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to their fair value measurement of the instrument.

The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the government can access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

VERNON COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED AUGUST 31, 2016 AND 2015

The fair value hierarchy of investments at August 31, 2016 follows:

	August 31, 2016			Total	2015
	Level 1	Level 2	Level 3		Total
Mutual funds	<u>\$4,448,439</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$4,448,439</u>	<u>\$4,044,075</u>

5. Permanent Endowment

The College maintains a permanent endowment fund for funding scholarships to the College's students. The endowment consists of numerous individual gifts from various individuals and groups and all proceeds are held as cash and cash equivalents or invested in certificates of deposit. All interest income earned on the investments is available for awarding scholarships to eligible Vernon College students. These amounts are included in restricted cash and cash equivalents and endowed investments on the statement of net position.

6. 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 located in the College 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 are based upon historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the College is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

The following are additional disclosures relative to property taxes for the years ended August 31, 2016 and 2015:

Net Assessed Valuation:

Net assessed valuation for year ended August 31:	2016	2015
Gross assessed valuation	\$1,982,985,410	\$1,859,401,310
Less exceptions or abatements	(746,032,540)	(654,132,720)
Net assessed valuation	<u>\$1,236,952,870</u>	<u>\$1,205,268,590</u>

Tax Rate Per \$100 Valuation:

	Year Ended August 31, 2016			Year Ended August 31, 2015		
	Current Operations	Debt Service	Totals	Current Operations	Debt Service	Totals
Authorized	\$1.00000	\$.00000	\$1.00000	\$1.00000	\$.00000	\$1.00000
Assessed	\$.22000	\$.00000	\$.22000	\$.21767	\$.00000	\$.21767

Property taxes levied for the years ended August 31, 2016 and 2015 amounted to \$2,721,296 and \$2,623,156, respectively.

VERNON COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED AUGUST 31, 2016 AND 2015

Tax Collections:

	<u>Year Ended August 31, 2016</u>			<u>Year Ended August 31, 2015</u>		
	<u>Current Operations</u>	<u>Debt Service</u>	<u>Totals</u>	<u>Current Operations</u>	<u>Debt Service</u>	<u>Totals</u>
Current taxes	\$2,643,759	\$ --	\$2,643,759	\$2,574,026	\$ --	\$2,574,026
Delinquent taxes	32,131	--	32,131	71,918	--	71,918
Penalties and interest	<u>27,846</u>	<u>--</u>	<u>27,846</u>	<u>29,456</u>	<u>--</u>	<u>29,456</u>
Total collections	<u>\$2,703,736</u>	<u>\$ --</u>	<u>\$2,703,736</u>	<u>\$2,675,400</u>	<u>\$ --</u>	<u>\$2,675,400</u>

Current tax collections for the years ended August 31, 2016 and 2015 were 98.11% and 98.44%, respectively, of the current year levy. Allowances for uncollectible taxes are based on historical experience in collecting property taxes. The use of property taxes is restricted to either maintenance and operations or general obligation debt service.

7. Disaggregation of Accounts Receivable

Accounts receivable, net of allowances for un-collectibles, at August 31, 2016 and 2015 consisted of the following:

August 31, 2016

	<u>Gross</u>	<u>Allowance</u>	<u>Net</u>
Students	\$ 1,482,896	\$ 810,167	\$ 672,729
Federal grants	1,412,279	--	1,412,279
State/local grants and contracts	135,581	--	135,581
Property taxes	163,351	70,697	92,654
Others	<u>375,969</u>	<u>--</u>	<u>375,969</u>
Totals	<u>\$ 3,570,076</u>	<u>\$ 880,864</u>	<u>\$ 2,689,212</u>

August 31, 2015

	<u>Gross</u>	<u>Allowance</u>	<u>Net</u>
Students	\$ 1,389,607	\$751,926	\$ 637,681
Federal grants	245,700	--	245,700
State/local grants and contracts	81,388	--	81,388
Property taxes	148,633	64,928	83,705
Others	<u>460,795</u>	<u>--</u>	<u>460,795</u>
Totals	<u>\$ 2,326,123</u>	<u>\$816,854</u>	<u>\$1,509,269</u>

VERNON COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
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8. Capital Assets

Capital assets activity for the years ended August 31, 2016 and 2015 was as follows:

August 31, 2016

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Capital assets not being depreciated:				
Land	\$ 2,812,791	\$ --	\$ --	\$ 2,812,791
Construction in progress	--	175,505	--	175,505
Total capital assets not being depreciated	<u>2,812,791</u>	<u>175,505</u>	<u>--</u>	<u>2,988,296</u>
Capital assets being depreciated:				
Buildings	22,288,813	--	3,800	22,285,013
Land improvements	1,938,525	--	--	1,938,525
Furniture, machinery, vehicles and other equipment	3,700,143	94,374	21,121	3,773,396
Telecommunications and computer equipment	1,394,934	--	11,804	1,383,130
Library books	1,159,406	14,862	--	1,174,268
Total capital assets being depreciated	<u>30,481,821</u>	<u>109,236</u>	<u>36,725</u>	<u>30,554,332</u>
Less accumulated depreciation:				
Buildings	6,844,083	461,640	3,420	7,302,303
Land improvements	739,612	71,024	--	810,636
Furniture, machinery, vehicles and other equipment	1,720,430	276,661	19,009	1,978,082
Telecommunications and computer equipment	1,171,032	36,617	10,624	1,197,025
Library books	914,113	18,896	--	933,009
Total accumulated depreciation	<u>11,389,270</u>	<u>864,838</u>	<u>33,053</u>	<u>12,221,055</u>
Total capital assets being depreciated, net	<u>19,092,551</u>	<u>(755,602)</u>	<u>3,672</u>	<u>18,333,277</u>
Capital assets, net	<u>\$21,905,342</u>	<u>\$ (580,097)</u>	<u>\$ 3,672</u>	<u>\$21,321,573</u>

August 31, 2015

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Capital assets not being depreciated:				
Land	\$ 2,812,791	\$ --	\$ --	\$ 2,812,791
Total capital assets not being depreciated	<u>2,812,791</u>	<u>--</u>	<u>--</u>	<u>2,812,791</u>
Capital assets being depreciated:				
Buildings	22,288,814	--	--	22,288,814
Land improvements	1,938,525	--	--	1,938,525
Furniture, machinery, vehicles and other equipment	3,625,360	88,901	14,118	3,700,143
Telecommunications and computer equipment	1,516,345	6,454	127,865	1,394,934
Library books	1,142,466	16,940	--	1,159,406
Total capital assets being depreciated	<u>30,511,510</u>	<u>112,295</u>	<u>141,983</u>	<u>30,481,822</u>
Less accumulated depreciation:				
Buildings	6,381,686	462,397	--	6,844,083
Land improvements	666,325	73,287	--	739,612
Furniture, machinery, vehicles and other equipment	1,464,425	268,712	12,707	1,720,430
Telecommunications and computer equipment	1,209,918	76,193	115,079	1,171,032
Library books	894,252	19,861	--	914,113
Total accumulated depreciation	<u>10,616,606</u>	<u>900,450</u>	<u>127,786</u>	<u>11,389,270</u>
Total capital assets being depreciated, net	<u>19,894,904</u>	<u>(788,155)</u>	<u>14,198</u>	<u>19,092,551</u>
Capital assets, net	<u>\$22,707,695</u>	<u>\$ (788,155)</u>	<u>\$ 14,198</u>	<u>\$21,905,342</u>

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9. Long-term Obligations

A. 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 and 2015 are as follows:

August 31, 2016

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>	<u>Amounts Due Within One Year</u>
Revenue bonds	\$10,285,000	\$7,455,000	\$7,935,000	\$ 9,805,000	\$ 555,000
Premium on bonds	130,913	--	100,366	30,547	--
Capital leases	565,880	--	147,777	418,103	158,423
Compensated absences	<u>288,702</u>	<u>312,267</u>	<u>298,688</u>	<u>302,281</u>	<u>226,711</u>
Totals	<u>\$11,270,495</u>	<u>\$7,767,267</u>	<u>\$8,481,831</u>	<u>\$10,555,931</u>	<u>\$ 940,134</u>

August 31, 2015

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>	<u>Amounts Due Within One Year</u>
Revenue bonds	\$10,760,000	\$ --	\$ 475,000	\$10,285,000	\$ 485,000
Premium on bonds	139,641	--	8,728	130,913	--
Capital leases	704,274	--	138,394	565,880	147,777
Compensated absences	<u>284,856</u>	<u>315,984</u>	<u>312,138</u>	<u>288,702</u>	<u>202,091</u>
Totals	<u>\$11,888,771</u>	<u>\$ 315,984</u>	<u>\$ 934,260</u>	<u>\$11,270,495</u>	<u>\$ 834,868</u>

B. Debt Service Requirements

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

<u>Year Ending August 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2017	\$ 713,423	\$ 160,261	\$ 873,684
2018	760,447	123,128	883,575
2019	694,233	107,374	801,607
2020	625,000	97,124	722,124
2021	880,000	88,218	968,218
2022-26	3,490,000	302,143	3,792,143
2027-30	<u>3,060,000</u>	<u>89,647</u>	<u>3,149,647</u>
Totals	<u>\$10,223,103</u>	<u>\$ 967,895</u>	<u>\$11,190,998</u>

C. Revenue Bonds Payable

The Wilbarger County Junior College District Consolidated Fund Revenue Bonds Taxable Series 2004 were issued to acquire the Wichita Falls campus; improve, renovate, enlarge and equip the College's Administrative Building; and construct and improve roads on the College's Vernon campus. The amount of issues and amount authorized was \$3,205,000. The sources of revenue for debt service include, as necessary, (1) tuition, (2) building use fees, (3) student service fees, (4) lab fees, (5) other fees, and (6) charges for the use of the components of the Auxiliary Enterprise Fund. The Taxable Series 2004 revenue bonds' interest rates are set at Prime Rate plus 1.75%.

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The Wilbarger County Junior College District Consolidated Fund Revenue Improvement and Refunding Bonds, Series 2010 were issued to refund outstanding bonds and provide the College with approximately \$5,000,000 of additional funds to renovate the College's Century City Center in Wichita Falls, Texas. The bonds are payable over 20 years through August 31, 2030 with interest rates ranging from 2.00% to 4.00%. The sources of revenue for debt service include, as necessary, (1) tuition, (2) building use fees, (3) student service fees, (4) other fees (5) gross revenues of the Auxiliary Enterprise Fund and (6) all investment earnings of the College lawfully available for such purpose.

The Wilbarger County Junior College District Consolidated Fund Revenue Refunding Bond Series 2016 were issued to pay off the remaining balance of the 2004 Taxable Series and refinance the callable portion of the 2010 Refunding Series. The bonds are payable over 20 years through August 31, 2030 and shall bear interest at a rate of 2.33%. The sources of revenue for debt service include, as necessary, (1) tuition, (2) building use fees, (3) student service fees, (4) other fees (5) gross revenues of the Auxiliary Enterprise Fund and (6) all investment earnings of the College lawfully available for such purpose.

Debt service requirements for the College's outstanding bonds at August 31, 2016 are as follows:

<u>Year Ending August 31.</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2017	\$ 555,000	\$ 142,615	\$ 697,615
2018	590,000	113,576	703,576
2019	605,000	105,746	710,746
2020	625,000	97,124	722,124
2021	880,000	88,218	968,218
2022-26	3,490,000	302,142	3,792,142
2027-30	<u>3,060,000</u>	<u>89,647</u>	<u>3,149,647</u>
Totals	<u>\$ 9,805,000</u>	<u>\$ 939,068</u>	<u>\$10,744,068</u>

There are a number of limitations and restrictions contained in the bond indentures. Management has indicated that the College is in compliance with all significant limitations and restrictions.

D. Capital Leases

The Public Property Finance Act gives the College authority to enter into capital leases for the acquisition of personal property. Through August 31, 2016, the College has acquired \$1,644,995 in equipment through capital leases.

Commitments under capitalized lease agreements provide for minimum future rental payments as of August 31, 2016 as follows:

<u>Year Ending August 31.</u>	
2017	\$ 176,070
2018	180,000
2019	<u>90,860</u>
Total minimum lease payments	446,930
Less amount representing interest	(28,827)
Present value of minimum lease payments	<u>\$ 418,103</u>

The interest rate on the capital leases is 4.67%.

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E. Compensated Absences

1. Vacation Leave

Full-time employees earn annual leave from 8 to 12 hours per month depending on the number of years employed with the College. The College's policy is that an employee may carry his accrued vacation leave forward from one fiscal year to another with a maximum carry forward of 160 hours. Employees with at least one month of service who terminate their employment are entitled to payment of all accumulated vacation leave up to the maximum allowed. The College recognized the accrued liability for the unpaid vacation leave of \$302,281 and \$288,702 at August 31, 2016 and 2015, respectively.

2. Sick Leave

Sick leave, which can be accumulated up to 480 hours, is typically earned at the rate of 8 hours per month. It is paid to an employee who misses work due to illness. The liability is not shown in the financial statements since experience indicates the expenditure for sick leave to be minimal.

F. Advance Refunding Bonds

The College's advance refunding bonds at August 31, 2016 are as follows:

- Refunded \$7,450,000 of Revenue Bonds, Series 2004 and a portion of Series 2010
- Issued refunding bonds in June 2016
- \$7,455,000, all authorized bonds have been issued
- General Obligation Bonds – Refunding Series 2016
- Average interest rate of bonds refunded – 2.33%
- Net proceeds from Refunding Series – \$7,438,538, after payment of \$97,000 in underwriting fees, insurance, and other issuance costs
- Additional \$660,000 of local sinking fund monies was used to purchase U.S. Government securities, which were deposited in an irrevocable trust with an escrow agent to provide for all future debt payments on the Series 2004 and 2010 bonds
- The Series 2004 and 2010 bonds are considered fully defeased and the liability for those bonds has been removed from the Investment in Plant Fund Group
- Advance refunding of the 2010 Series bonds reduced the College's debt service payments over the next 20 years by approximately \$1,565,410
- Economic gain - \$703,753, difference between the net present value of the old and new debt service payments.
- Accounting loss - \$557,945 accounting loss was resulted from the advanced refunding

G. Defeased Bonds Outstanding

The College's defeased bonds outstanding as of August 31, 2016 are as follows:

<u>Bond Issue</u>	<u>Year Refunded</u>	<u>Par Value Outstanding</u>
Revenue Bonds, Series 2004	2016	\$ 540,000
Revenue Bonds, Series 2010	2016	<u>6,910,000</u>
Total		<u>\$7,450,000</u>

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10. Employees' Retirement Plans

The State of Texas has joint contributory retirement plans for almost all its employees; the Teacher Retirement System of Texas and the Optional Retirement Program. A description of each follows.

A. Teacher Retirement System of Texas – Defined Benefit Plan

1. Plan Description

The College participates in a cost-sharing multiple-employer defined benefit pension plan 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, Texas 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, 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 in (1) above.

4. Contributions

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

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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 employer contribution rates for fiscal years 2015 and 2016.

Contribution Rates

	<u>2015</u>	<u>2016</u>
Member	6.7%	7.2%
Non-Employer Contribution Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%
2015 Member Contributions	\$533,123	
2015 State of Texas On-behalf Contributions	\$224,166	
2015 College Contributions	\$318,424	

The College's contributions to the TRS pension plan in 2016 were \$329,434 as reported in the Schedule of College Contributions in the Required Supplementary Information section of these financial statements. Estimated State of Texas on-behalf contributions for 2016 were \$293,933.

- 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.

Public junior college or junior college districts 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, 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.

5. Actuarial Assumptions

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

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Valuation Date	August 31, 2015
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Single Discount Rate	8.00%
Long-term expected Investment Rate of Return*	8.00%
Inflation	2.5%
Salary Increases Including Inflation*	3.5% to 9.5%
Payroll Growth Rate	2.5%
Benefit changes during the year	None
Ad hoc post-employment benefit changes	None

*Includes Inflation of 2.5%

Actuarial methods and assumptions were updated based on a study of actual experience for the four year period ending August 31, 2014, and adopted on September 24, 2015, by the TRS Board of Trustees, who have sole authority to determine the actuarial assumptions used for the plan. The most significant changes were related to the update of the post-retirement mortality rates based on the most recent TRS member experience and the decrease in the assumption for general wage inflation from 3.0% to 2.5%. Other changes to overall assumptions and methods had a minor impact on the results of the actuarial valuation and the related pension liability.

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

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-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. 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:

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<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Geometric Real Rate of Return</u>	<u>Expected Contribution to Long-Term Portfolio Returns *</u>
Global Equity			
U.S.	18.0%	4.6%	1.0%
Non-U.S. Developed	13.0%	5.1%	0.8%
Emerging Markets	9.0%	5.9%	0.7%
Directional Hedge Funds	4.0%	3.2%	0.1%
Private Equity	13.0%	7.0%	1.1%
Stable Value			
U.S. Treasuries	11.0%	0.7%	0.1%
Absolute Return	0.0%	1.8%	0.0%
Stable Value Hedge Funds	4.0%	3.0%	0.1%
Cash	1.0%	-.02%	0.0%
Real Return			
Global Inflation Linked Bonds	3.0%	0.9%	0.0%
Real Assets	16.0%	5.1%	1.1%
Energy and Natural Resources	3.0%	6.6%	0.2%
Commodities	0.0%	1.2%	0.0%
Risk Parity			
Risk Parity	5.0%	6.7%	0.3%
Inflation Expectation			2.2%
Alpha	<u>0.0%</u>	0.0%	<u>1.0%</u>
Total	<u>100.0%</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 2014 Net Pension Liability.

	<u>1% Decrease in Discount Rate (7.0%)</u>	<u>Discount Rate (8.0%)</u>	<u>1% Increase in Discount Rate (9.0%)</u>
College's proportionate share of the net pension liability	\$5,955,960	\$3,801,335	\$2,006,648

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

At August 31, 2016, the College reported a liability of \$3,801,335 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the College. The amount recognized by the College 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 College were as follows:

College's proportionate share of the collective net pension liability	\$3,801,335
State's proportionate share that is associated with the College	<u>2,675,276</u>
Total	<u>\$6,476,611</u>

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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 the measurement date of August 31, 2015, the employer's proportion of the collective net pension liability was .0107538%, which was a decrease of .0014683 from its proportion measured as of August 31, 2014.

For the year ended August 31, 2016, the College recognized pension expense of \$224,166 and revenue of \$381,184 for support provided by the State.

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

	<u>Deferred Outflows</u>	<u>Deferred Inflows</u>
Differences between expected and actual economic experience	\$ 41,991	\$ 146,088
Changes in actuarial assumptions	176,487	135,615
Difference between projected and actual investment earnings	936,182	748,367
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	-	336,361
Contributions paid to TRS subsequent to the measurement date	<u>329,434</u>	<u>-</u>
Total	<u>\$1,484,094</u>	<u>\$1,366,431</u>

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

<u>Year ended August 31:</u>	<u>Pension Expense Amount</u>
2017	(\$ 75,916)
2018	(\$ 75,916)
2019	(\$ 75,916)
2020	\$173,538
2021	(\$ 63,125)
Thereafter	(\$ 94,436)

B. Optional Retirement Program – Defined Contribution Plan

1. Plan Description

The State has also established an optional retirement program for institutions of higher education. Participation in the Optional Retirement Program, a defined contribution plan, is in lieu of participation in the Teacher Retirement System. The optional retirement program provides for the purchase of annuity contracts and operates under the provisions of the Texas Constitution, Article XVI, Sec. 67, and Texas Government Code, Title 8, Subtitle C.

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2. Funding Policy

Contribution requirements are not actuarially determined but are established and amended by the Texas state legislature. The percentages of participant salaries currently contributed by the state and each participant are 6.4% and 6.4%, respectively. Additionally, the College contributes 1.31% of the covered payroll. Benefits fully vest after one year plus one day of employment. Because these are individual annuity contracts, the state has no additional or unfunded liability for this program. S.B. 1812, effective September 1, 2013, limits the amount of the state's contribution to 50% of the state contribution rates noted above.

Total payroll of employees covered by the Program was \$2,438,307 and \$2,824,572 for the years ended August 31, 2016 and 2015, respectively. The College's employees' contributions to the Program for the years ending August 31, 2016 and 2015 were \$159,814 and \$185,302, respectively, and were equal to the required contributions for the year. Other contributions made from the College for the years ending August 31, 2016 and 2015 were \$32,784 and \$40,558, respectively, and were equal to the required contributions for the year. During the years ended August 31, 2016 and 2015, the amounts contributed by the State on behalf of the College were \$72,784 and \$86,037, respectively.

C. Total Payroll

The total payroll for all College employees was \$11,740,239 and \$11,824,934 for the years ended August 31, 2016 and 2015, respectively.

11. Deferred Compensation Plan

College employees may elect to defer a portion of their earnings for income tax and investment purposes pursuant to authority granted in Government Code 609.001.

12. Health Care and Life Insurance Benefits

Certain health care and life insurance benefits for active employees are provided through an insurance company whose premiums are based on benefits paid during the previous year. The State recognizes the cost of providing these benefits by expending the annual insurance premiums.

The state's and the College's contribution per full-time employee was \$577 per month for employee only coverage and ranged from \$798 to \$1,128 for employee and dependent coverage for the year ended August 31, 2016. The state's and the College's contribution per full-time employee was \$538 per month for employee only coverage and ranging from \$744 to \$1,052 for employee and dependent coverage for the year ended August 31, 2015. The total number of employees participating in the plan and contributions were as follows:

	2015-16			2014-15		
	Number of Employees	State Contribution	College Contribution	Number of Employees	State Contribution	College Contribution
Active employees	229	\$ 740,964	\$1,235,033	228	\$718,354	\$1,235,549
Retired employees	71	281,951	273,192	66	243,375	231,895
Totals	300	\$1,022,915	\$1,508,225	294	\$961,729	\$1,467,444

VERNON COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED AUGUST 31, 2016 AND 2015

13. Postemployment Benefits Other Than Pensions

1. Plan Description

In addition to providing pension benefits, the state provides certain health care and life insurance benefits for retired employees. Almost all employees may become eligible for those benefits if they reach normal retirement age while working for the state. The College contributes to the State Retiree Health Plan (SRHP), a cost-sharing, multiple-employer, defined benefit postemployment healthcare plan administered by the Employees Retirement System of Texas (ERS). SRHP provides medical benefits to retired employees of participating universities, community colleges and state agencies in accordance with Chapter 1551, Texas Insurance Code. Benefit and contribution provisions of the SRHP are authorized by state law and may be amended by the Texas Legislature. ERS issues a publicly available financial report that includes financial statements and required supplementary information for SRHP. That report may be obtained from ERS via their website at <http://www.ers.state.tx.us/>.

2. Funding Policy

Section 1551.055 of Chapter 1551, Texas Insurance Code provides that contribution requirements of the plan members and the participating employers are established and may be amended by the ERS board of trustees. Plan members or beneficiaries receiving benefits pay any premium over and above the employer contribution. The employer's share of the cost of retiree healthcare coverage for the current year is known as the implicit rate subsidy. It is the difference between the claims costs for the retirees and the amounts contributed by the retirees. The ERS board of trustees sets the employer contribution rate based on the implicit rate subsidy which is actuarially determined in accordance with the parameters of GASB Statement 45. The employer contribution rate represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) of the plan over a period not to exceed 30 years.

The College's contributions to SRHP for the years ended August 31, 2016, 2015 and 2014 were \$273,192, \$231,895 and \$8,651, respectively, which equaled the required contributions each year.

14. Contracts and Grant Awards

Contract and grant awards are accounted for in accordance with the requirements of the AICPA Industry Audit Guide, *Audits of Colleges and Universities*. Revenues are recognized on Exhibit 2 and Schedule A. For grant awards, funds expended, but not collected, are reported as accounts receivable on Exhibit 1. See Note 7 for disaggregation of amounts included in accounts receivable. Grant awards received but not expended are included in deferred revenues on Exhibit 1. Contract and grant awards that are not yet funded and for which the institution has not yet performed services are not included in the financial statements.

15. Risk Management

The College 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 College 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.

16. Commitments and Contingencies

A. Facilities Lease

The College rents facilities from Wichita County for its Skills Development Center. The lease agreement with Wichita County is for a term of six years and calls for a monthly rental payment of \$4,500 due the first of each month through December 1, 2017. Future minimum lease payments under this lease are as follows:

VERNON COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED AUGUST 31, 2016 AND 2015

<u>Year Ending August 31,</u>	
2017	\$ 54,000
2018	<u>18,000</u>
Total minimum lease payments	<u>\$ 72,000</u>

The College paid \$54,000 in rent under this lease agreement during each of the years ended August 31, 2016 and 2015, respectively.

B. Long-Term Service Contract

The College contracts with an outside information technology firm for maintenance of its hardware, software and network. The College's contract with the company is for a term of three years through August 31, 2017, with a minimum base fee of \$310,000 per year paid in monthly installments of \$25,833 and additional annual license fees of \$36 per computer paid October 1st of each year. Future minimum payments under this agreement with the current inventory of computers are as follows:

<u>Year Ending August 31,</u>	
2017	<u>\$ 379,852</u>
Total future minimum payments	<u>\$ 379,852</u>

The College paid \$379,852 and \$379,852 in service fees under this agreement during the years ended August 31, 2016 and 2015, respectively.

C. Grants

The College 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 College 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 College, 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.

17. Concentration – Title IV HEA Funding

For the years ended August 31, 2016 and 2015, the College received approximately 25% and 27%, respectively, of its total revenues (operating and non-operating) from federal Title IV HEA grants. In addition, \$5,812,658 and \$6,304,981 of Title IV student loans were used by students to pay for tuition, fees and other costs included in the College's revenues for the years ending August 31, 2016 and 2015, respectively. Altogether these grants and loans directly contribute to more than 50% of the College's total annual revenue. A loss or significant reduction in these grants and loans would have a material adverse effect on the College's operations and financial position.

Required Supplementary Information

Vernon College

**Schedule of College's Share of Pension Liability
Teacher Retirement System of Texas
For the Year Ended August 31, 2016**

<u>Fiscal year ending August 31*</u>	<u>2015**</u>	<u>2016**</u>
TRS net position as a percentage of total pension liability	83.25%	78.43%
College's proportionate share of collective net pension liability (%)	0.0122221%	0.0107538%
College's proportionate share of collective net pension liability (\$)	\$ 3,264,692	\$ 3,801,335
Portion of NECE's total proportionate share of NPL associated with College	2,292,336	2,675,276
Total	<u>\$ 5,557,028</u>	<u>\$ 6,476,611</u>
College's covered payroll amount	\$ 7,716,713	\$ 7,957,060
Ratio of: ER proportionate share of collective NPL/ER's covered payroll amount	72%	81%

* The amounts presented above are as of the measurement date of the collective net pension liability

** Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

NECE -- Non-Employer Contributing Entity
NPL -- Net Pension Liability
ER -- Employer / Institution / Reporting Entity

Vernon College

**Schedule of College's Contributions
Teacher Retirement System of Texas
For the Year Ended August 31, 2016**

<u>Fiscal year ending August 31*,</u>	<u>2015**</u>	<u>2016**</u>
Legally required contributions	\$ 314,702	\$ 329,434
Actual Contributions	(314,702)	(329,434)
Contributions deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
College's covered employee payroll amount	\$ 7,957,060	\$ 8,363,407
Ration of: Actual contributions / ER covered payroll amount	3.96%	3.94%

* The amounts presented above are as of the College's most recent fiscal year-end.

** Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

VERNON COLLEGE

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

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

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 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 that 20% of them will choose a 100% joint and survivor annuity option.

VERNON COLLEGE

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (CONT'D.) FOR THE YEAR ENDED AUGUST 31, 2016

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.

Other Supplementary Information

Vernon College
Schedule A
Schedule of Operating Revenues
For the Year Ended August 31, 2016
(With Memorandum Totals for the Year Ended August 31, 2015)

	Unrestricted	Restricted	Total Educational Activities	Auxiliary Enterprises	2016 Totals	2015 Totals
Tuition:						
State funded credit courses:						
In-district resident tuition	\$ 258,556	\$ -	\$ 258,556	\$ -	\$ 258,556	\$ 239,826
Out-of-district resident tuition	4,555,338	-	4,555,338	-	4,555,338	4,440,018
Non-resident tuition	165,590	-	165,590	-	165,590	169,056
TPEG - credit (set aside)*	-	239,998	239,998	-	239,998	244,307
State funded continuing education						
TPEG - non-credit (set aside)*	801,277	-	801,277	-	801,277	864,249
Non-state funded continuing education	-	36,118	36,118	-	36,118	36,875
Non-state funded continuing education	181,105	-	181,105	-	181,105	172,978
Total Tuition	5,961,866	276,116	6,237,982	-	6,237,982	6,167,309
Fees:						
General fees	3,922,923	-	3,922,923	-	3,922,923	4,017,862
Laboratory fees	670,393	-	670,393	-	670,393	635,534
Total Fees	4,593,316	-	4,593,316	-	4,593,316	4,653,396
Scholarship allowances and discounts:						
Remissions and exemptions - state	(734,457)	-	(734,457)	-	(734,457)	(268,664)
Title IV federal grants	(3,498,479)	-	(3,498,479)	-	(3,498,479)	(3,658,024)
TPEG awards	-	(80,804)	(80,804)	-	(80,804)	(94,567)
Other local awards	(1,927,825)	-	(1,927,825)	-	(1,927,825)	(1,935,364)
Total Scholarship Allowances	(6,160,761)	(80,804)	(6,241,565)	-	(6,241,565)	(5,956,619)
Total Net Tuition and Fees	4,394,421	195,312	4,589,733	-	4,589,733	4,864,086
Other operating revenues:						
Federal grants and contracts	8,949	753,013	761,962	-	761,962	266,912
State grants and contracts	-	327,546	327,546	-	327,546	732,620
Non-governmental grants and contracts	-	1,005,074	1,005,074	-	1,005,074	945,811
Sales and services of educational activities	122,003	-	122,003	-	122,003	114,134
Investment income (program restricted)	-	5,587	5,587	-	5,587	7,711
Total Other Operating Revenues	130,952	2,091,220	2,222,172	-	2,222,172	2,067,188
Auxiliary Enterprises:						
Residential life	-	-	-	478,219	478,219	491,236
Scholarship allowances and discounts	-	-	-	(163,628)	(163,628)	(190,583)
Net Residential Life	-	-	-	314,591	314,591	300,653
Bookstore	-	-	-	1,509,939	1,509,939	1,632,250
Scholarship allowances and discounts	-	-	-	(657,415)	(657,415)	(820,427)
Net Bookstore	-	-	-	852,524	852,524	811,823
Student programs	-	-	-	80,380	80,380	82,291
Total Net Auxiliary Enterprises	-	-	-	1,247,495	1,247,495	1,194,767
Total Operating Revenues (Exhibit 2)	\$ 4,525,373	\$ 2,286,532	\$ 6,811,905	\$ 1,247,495	\$ 8,059,400	\$ 8,126,041
					(Exhibit 2)	(Exhibit 2)

* In accordance with Education Code 56.033, \$276,116 and \$281,182 for years August 31, 2016 and 2015, respectively, of tuition was set aside for Texas Public Education Grants (TPEG).

Vernon College
Schedule B
Schedule of Operating Expenses by Object
For the Year Ended August 31, 2016
(With Memorandum Totals for the Year Ended August 31, 2015)

	Operating Expenses			2016 Totals	2015 Totals	
	Salaries and Wages	Benefits				Other Expenses
		State	Local			
Unrestricted - Educational Activities						
Instruction	\$ 5,716,276	\$ -	\$ 1,120,396	\$ 401,574	\$ 7,238,246	\$ 7,057,442
Public Service	164,945	-	53,123	24,830	242,898	241,200
Academic Support	1,489,938	-	293,758	663,687	2,447,383	2,479,489
Student Services	1,307,689	-	269,257	190,883	1,767,829	1,709,788
Institutional Support	1,207,223	-	250,793	1,720,882	3,178,898	3,120,008
Operation and Maintenance of Plant	840,888	-	163,707	1,126,164	2,130,759	2,086,577
Scholarships and Fellowships	-	-	-	-	-	-
Total Unrestricted Educational Activities	<u>10,726,959</u>	<u>-</u>	<u>2,151,033</u>	<u>4,128,020</u>	<u>17,006,012</u>	<u>16,694,504</u>
Restricted - Educational Activities						
Instruction	38,679	748,682	-	431,372	1,218,733	1,318,106
Public Service	107,922	35,498	19,330	114,668	277,418	285,406
Academic Support	18,958	196,298	-	25,097	240,353	223,198
Student Services	75,357	179,925	-	-	255,282	244,332
Institutional Support	80,982	167,587	25,280	139,166	413,015	145,899
Operation and Maintenance of Plant	-	-	-	-	-	-
Scholarships and Fellowships	-	-	-	320,362	320,362	1,544,790
Total Restricted Educational Activities	<u>321,898</u>	<u>1,327,990</u>	<u>44,610</u>	<u>1,030,665</u>	<u>2,725,163</u>	<u>3,761,731</u>
Total Educational Activities	<u>11,048,857</u>	<u>1,327,990</u>	<u>2,195,643</u>	<u>5,158,685</u>	<u>19,731,175</u>	<u>20,456,235</u>
Auxiliary Enterprises	<u>679,693</u>	<u>-</u>	<u>214,643</u>	<u>1,217,033</u>	<u>2,111,369</u>	<u>2,001,137</u>
Depreciation Expense - Buildings and other real estate improvements	-	-	-	532,664	532,664	535,685
Depreciation Expense - Equipment and furniture	-	-	-	332,173	332,173	364,765
Total Operating Expenses	<u>\$ 11,728,550</u>	<u>\$ 1,327,990</u>	<u>\$ 2,410,286</u>	<u>\$ 7,240,555</u>	<u>\$ 22,707,381</u> (Exhibit 2)	<u>\$ 23,357,822</u> (Exhibit 2)

**Vernon College
Schedule C
Schedule of Non-Operating Revenues and Expenses
For the Year Ended August 31, 2016
(With Memorandum Totals for the Year Ended August 31, 2015)**

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Auxiliary Enterprises</u>	<u>2016 Totals</u>	<u>2015 Totals</u>
NON-OPERATING REVENUES:					
State appropriations:					
Educational and general state support	\$ 5,607,701	\$ -	\$ -	\$ 5,607,701	\$ 5,520,178
State group insurance	-	1,022,915	-	1,022,915	961,729
State retirement match	-	305,075	-	305,075	309,108
Total state appropriations	<u>5,607,701</u>	<u>1,327,990</u>	<u>-</u>	<u>6,935,691</u>	<u>6,791,015</u>
Property taxes for maintenance & operation	1,857,674	-	860,332	2,718,006	2,648,716
Federal Revenue, Non-Operating	-	5,120,750	-	5,120,750	5,580,294
Capital contracts, grants and gifts	-	190,858	12,797	203,655	235,821
Gain/(Loss) on Disposal of Assets	(3,672)	-	-	(3,672)	(14,198)
Lease income	-	24,929	-	24,929	18,516
Investment income	7,040	4,466	-	11,506	24,109
Total non-operating revenues	<u>7,472,415</u>	<u>6,668,993</u>	<u>873,129</u>	<u>15,010,865</u>	<u>15,284,271</u>
NON-OPERATING EXPENSES:					
Operational costs of lease property	-	7,021	-	7,021	3,498
Amortization of bond issuance costs	-	-	-	-	-
Interest and fees on capital related debt	27,803	324,271	-	352,074	419,522
Total non-operating expenses	<u>27,803</u>	<u>331,292</u>	<u>-</u>	<u>359,095</u>	<u>423,020</u>
Net non-operating revenues	<u>\$ 7,444,612</u>	<u>\$ 6,337,701</u>	<u>\$ 873,129</u>	<u>\$ 14,651,770</u> (Exhibit 2)	<u>\$ 14,861,251</u> (Exhibit 2)

Vernon College
Schedule D
Schedule of Net Position By Source and Availability
For the Year Ended August 31, 2016
(With Memorandum Totals for the Year Ended August 31, 2015)

	Detail by Source				Available for Current Operations		
	Unrestricted	Restricted		Capital Assets Net of Depreciation & Related Debt	Total	Yes	No
		Expendable	Non-Expendable				
Current:							
Unrestricted	\$ (995,390)	\$ -	\$ -	\$ -	\$ (995,390)	\$ (995,390)	
Auxiliary	2,239	-	-	-	2,239	2,239	
Student Aid	(44,647)	-	-	-	(44,647)	(44,647)	
Endowment:							
Unrestricted:							
Student Aid	-	-	1,526,525	-	1,526,525	-	1,526,525
Plant:							
Debt Service	-	975,289	-	-	975,289	-	975,289
Investment in Plant	-	-	-	11,653,226	11,653,226	-	11,653,226
Total Net Position, August 31, 2016	(1,037,798)	975,289	1,526,525	11,653,226	13,117,242	(1,037,798)	14,155,040
Total Net Position, August 31, 2015	(371,319)	979,687	1,542,110	10,962,975	13,113,453	(371,319)	13,484,772
Net Increase (Decrease) in Net Assets	\$ (666,479)	\$ (4,398)	\$ (15,585)	\$ 690,251	\$ 3,789	\$ (666,479)	\$ 670,268
					(Exhibit 2)		

**Vernon College
Schedule E
Schedule of Expenditures of Federal Awards
For the Year Ended August 31, 2016**

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantors Number</u>	<u>Pass-Through Disbursements and Expenditures</u>
<u>U.S. Department of Education:</u>			
<u>Direct Programs:</u>			
Student Financial Aid Cluster:			
Supplemental Educational Opportunity Grant (FSEOG)	84.007	N/A	\$ 60,125
Federal Workstudy Program (FWS)	84.033	N/A	75,357
Federal Pell Grant Program (Pell)	84.063	N/A	4,985,268
Federal Direct Student Loans (Direct Loan)	84.268	N/A	5,812,658
Total Student Financial Aid Cluster			<u>10,933,408</u>
 Title III - Strengthening Institutions	 84.031A	 N/A	 <u>418,453</u>
Total Direct Programs			<u>11,351,861</u>
<u>Pass-Through From:</u>			
Texas Higher Education Coordinating Board:			
Carl Perkins Vocational Education Annual Grant	84.048	94252	<u>290,534</u>
Total U.S. Department of Education			<u>11,642,395</u>
<u>U.S. Department of Health and Human Services:</u>			
<u>Pass-Through From:</u>			
Nortex Regional Planning Commission:			
Special Programs for the Aging - Title VII	93.041	N/A	<u>44,026</u>
Total U.S. Department of Health and Human Services			<u>44,026</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 11,686,421</u>

The accompanying Notes are an integral part of this statement.

Vernon College
Schedule E
Schedule of Expenditures of Federal Awards (Cont'd)
For the Year Ended August 31, 2016

Note 1: Significant Accounting Policies Used in Preparing the Schedule

The expenditures included in this schedule are reported on the College's fiscal year. Expenditure reports to funding agencies are prepared on the award period basis. The expenditures reported above represent funds which have been expended by the College for the purposes of the award. The expenditures reported above may not have been reimbursed by the funding agencies as of the end of the fiscal year. Some amounts reported in the schedule may differ from amounts used in the preparation of the financial statements. Separate accounts are maintained for the different awards to aid in the observance of limitations and restrictions imposed by the funding agencies. The College has followed all applicable guidelines issued by various entities in the preparation of the schedule.

Note 2: Federal Assistance Reconciliation

Federal Revenues - per Exhibit 2	
Federal Grants and Contracts - per Schedule A	\$ 761,962
Federal Grants and Contracts - per Schedule C	5,120,750
Direct Loans	5,812,658
Administrative Cost Recoveries - U.S. Department of Education	(7,025)
Veterans Reporting Allowance	(1,924)
	<hr/>
Total Per Schedule E	<u>\$ 11,686,421</u>

Note 3: Indirect Cost Rate

The College did not elect to use the 10% de minimis indirect cost rate.

**Vernon College
Schedule F
Schedule of Expenditures of State Awards
For Year Ended August 31, 2016**

State Grantor/Pass Through Grantor/Program Title	Grant Contract #	Expenditures August 31, 2016
Pass-Through From		
Texas Higher Ed Coordinating Board		
College Workstudy	N/A	\$ 18,958
Texas Grant	N/A	4,104
Texas Education Opportunity Grant	N/A	254,440
Developmental Education Scaling and Sustaining Success (S3)	N/A	10,672
Professional Nursing (Over 70) Grant	N/A	27,234
Subtotal Texas Higher Education Coordinating Board		315,408
Texas Department of Agriculture		
Texans Feeding Texans	N/A	2,358
Subtotal Texas Department of Agriculture		2,358
Texas Comptroller of Public Accounts		
Law Enforcement Grant	N/A	2,480
Subtotal Texas Comptroller of Public Account		2,480
Texas Workforce Commission		
Skills for Small Businesses	0315SSD000	7,300
Subtotal Texas Workforce Awards		7,300
Total State Grants and Awards		\$ 327,546

Note 2: Significant Accounting Policies Used in Preparing the Schedule

The accompanying schedule is presented using the accrual basis. See Notes to the financial statements for the College's significant accounting policies. These expenditures are reported on the College's fiscal year. Expenditure reports to funding agencies are prepared on the award period basis.

The accompanying Notes are an integral part of this statement.

Statistical Section

**Vernon College
Statistical Supplement 1
Net Position by Component
Fiscal Years 2011 to 2016
(Unaudited)**

	For the Years Ended August 31,					
	2016	2015	2014	2013	2012	2011
Net investment in capital assets	\$ 11,653,226	\$ 10,962,975	\$ 11,147,587	\$ 10,562,477	\$ 9,927,996	\$ 7,907,301
Restricted - nonexpendable	1,526,525	1,542,110	1,688,875	1,892,062	2,092,113	2,349,161
Restricted - expendable	975,289	979,687	984,297	1,134,148	1,546,422	1,546,239
Unrestricted	(1,037,798)	(371,319)	3,358,774	3,666,758	3,962,726	5,108,925
Prior Period Adjustment - GASB 68	-	-	(3,695,550)	-	-	-
Total primary government net position	<u>\$ 13,117,242</u>	<u>\$ 13,113,453</u>	<u>\$ 13,483,983</u>	<u>\$ 17,255,445</u>	<u>\$ 17,529,256</u>	<u>\$ 16,911,626</u>

Note: Due to reporting format and definition changes prescribed by GASB 34/35, only fiscal years 2011 to 2016 are reported.

**Vernon College
Statistical Supplement 2
Revenue by Source
Fiscal Years 2011 to 2016
(Unaudited)**

For the Years Ended August 31,

	2016	2015	2014	2013	2012	2011
Operating Revenues						
Tuition and fees (net of discounts)	\$ 4,589,733	\$ 4,864,086	\$ 4,880,953	\$ 4,662,544	\$ 3,486,552	\$ 3,639,368
Government grants and contracts:						
Federal grants and contracts	761,962	266,912	234,829	239,482	235,093	700,049
State grants and contracts	327,546	732,620	900,845	1,166,010	639,271	1,169,238
Non-governmental grants and contracts	1,005,074	945,811	899,800	1,084,070	1,035,961	951,657
Sales and services of educational activities	122,003	114,134	112,937	108,782	99,473	111,860
Investment income (program restricted)	5,587	7,711	7,099	16,502	26,978	43,949
Auxiliary enterprises (net of discounts)	1,247,495	1,194,766	1,261,227	1,309,841	1,268,080	1,482,844
Other operating revenues	-	-	19,949	63,316	14,011	22,362
Total Operating Revenues	<u>8,059,400</u>	<u>8,126,040</u>	<u>8,317,639</u>	<u>8,650,547</u>	<u>6,805,419</u>	<u>8,121,327</u>
Non-Operating Revenues						
State appropriations	6,935,691	6,791,015	6,709,002	6,731,780	6,941,563	7,000,865
Ad valorem taxes	2,718,006	2,648,716	2,661,134	2,229,786	2,167,943	2,038,823
Federal Revenue, Non-Operating	5,120,750	5,580,294	5,899,152	5,872,046	6,193,085	6,133,753
Other non-operating income	203,655	235,821	188,802	242,662	150,700	352,419
Lease income	24,929	18,516	14,158	17,161	60,461	65,825
Investment income	11,506	24,109	19,721	42,379	62,608	109,542
Total Non-Operating Revenues	<u>15,014,537</u>	<u>15,298,471</u>	<u>15,491,969</u>	<u>15,135,814</u>	<u>15,576,360</u>	<u>15,701,227</u>
Total Revenues	<u>\$ 23,073,937</u>	<u>\$ 23,424,511</u>	<u>\$ 23,809,608</u>	<u>\$ 23,786,361</u>	<u>\$ 22,381,779</u>	<u>\$ 23,822,554</u>

For the Years Ended August 31,

	2016	2015	2014	2013	2012	2011
Operating Revenues						
Tuition and fees (net of discounts)	19.89%	20.76%	20.50%	19.60%	15.58%	15.28%
Government grants and contracts:						
Federal grants and contracts	3.30%	1.14%	0.99%	1.01%	1.05%	2.94%
State grants and contracts	1.42%	3.13%	3.78%	4.90%	2.86%	4.91%
Non-governmental grants and contracts	4.36%	4.04%	3.78%	4.56%	4.63%	3.99%
Sales and services of educational activities	0.53%	0.49%	0.47%	0.46%	0.44%	0.47%
Investment income (program restricted)	0.02%	0.03%	0.03%	0.07%	0.12%	0.18%
Auxiliary enterprises (net of discounts)	5.41%	5.10%	5.30%	5.51%	5.67%	6.22%
Other operating revenues	0.00%	0.00%	0.08%	0.27%	0.06%	0.09%
Total Operating Revenues	<u>34.93%</u>	<u>34.69%</u>	<u>34.93%</u>	<u>36.37%</u>	<u>30.41%</u>	<u>34.09%</u>
Non-Operating Revenues						
State appropriations	30.06%	28.99%	28.18%	28.30%	31.01%	29.39%
Ad valorem taxes	11.78%	11.31%	11.18%	9.37%	9.69%	8.56%
Federal Title IV grant revenue	22.19%	23.82%	24.78%	24.69%	27.67%	25.75%
Capital contracts, grants and gifts	0.88%	1.01%	0.79%	1.02%	0.67%	1.48%
Lease income	0.11%	0.08%	0.06%	0.07%	0.27%	0.28%
Investment income	0.05%	0.10%	0.08%	0.18%	0.28%	0.46%
Total Non-Operating Revenues	<u>65.07%</u>	<u>65.31%</u>	<u>65.07%</u>	<u>63.63%</u>	<u>69.59%</u>	<u>65.91%</u>
Total Revenues	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

Note: Due to reporting format and definition changes, only fiscal years 2011 to 2016 are reported.

Vernon College
Statistical Supplement 3
Program Expenses by Function
Fiscal Years 2011 to 2016
(Unaudited)

For the Years Ended August 31,

	2016	2015	2014	2013	2012	2011
Operating Expenses						
Instruction	\$ 8,456,979	\$ 8,319,528	\$ 8,080,853	\$ 7,985,750	\$ 7,162,309	\$ 8,007,493
Public service	520,316	524,080	514,862	471,654	420,836	409,775
Academic support	2,687,735	2,688,021	2,769,920	2,656,291	2,703,740	2,341,236
Student services	2,023,111	1,941,001	1,872,380	1,885,205	1,730,718	1,661,351
Institutional support	3,591,913	3,254,711	3,130,823	3,007,643	2,820,922	2,629,477
Operation and maintenance of plant	2,130,759	2,184,101	2,249,417	2,456,195	2,339,480	1,969,638
Scholarship and fellowships	320,362	1,544,790	1,886,033	1,730,853	189,510	966,082
Auxiliary enterprises	2,111,369	2,001,138	2,034,033	2,108,545	3,278,919	3,351,668
Depreciation	864,837	900,450	905,420	874,988	623,367	575,217
Total Operating Expenses	<u>22,707,381</u>	<u>23,357,820</u>	<u>23,443,741</u>	<u>23,177,124</u>	<u>21,269,801</u>	<u>21,911,937</u>
Non-Operating Expenses						
Operational costs of leased property	7,021	3,498	3,008	9,258	9,577	23,831
Amortization of bond issuance costs	-	-	-	-	11,672	11,672
Loss on disposal of assets	3,672	14,198	-	-	-	-
Interest and fees on capital related debt	352,074	419,522	438,772	453,220	473,099	472,826
Total Non-Operating Expenses	<u>362,767</u>	<u>437,218</u>	<u>441,780</u>	<u>462,478</u>	<u>494,348</u>	<u>508,329</u>
Total Expenses	<u>\$ 23,070,148</u>	<u>\$ 23,795,038</u>	<u>\$ 23,885,521</u>	<u>\$ 23,639,602</u>	<u>\$ 21,764,149</u>	<u>\$ 22,420,266</u>

For the Years Ended August 31,

	2016	2015	2014	2013	2012	2011
Operating Expenses						
Instruction	36.66%	34.96%	33.83%	33.78%	32.91%	35.72%
Public service	2.26%	2.20%	2.16%	2.00%	1.93%	1.83%
Academic support	11.65%	11.30%	11.60%	11.24%	12.42%	10.44%
Student services	8.77%	8.16%	7.84%	7.97%	7.95%	7.41%
Institutional support	15.57%	13.68%	13.11%	12.72%	12.96%	11.73%
Operation and maintenance of plant	9.24%	9.18%	9.42%	10.39%	10.75%	8.79%
Scholarship and fellowships	1.39%	6.49%	7.90%	7.32%	0.87%	4.31%
Auxiliary enterprises	9.15%	8.41%	8.52%	8.92%	15.07%	14.95%
Depreciation	3.75%	3.78%	3.79%	3.70%	2.86%	2.57%
Total Operating Expenses	<u>98.43%</u>	<u>98.16%</u>	<u>98.15%</u>	<u>98.04%</u>	<u>97.73%</u>	<u>97.73%</u>
Non-Operating Expenses						
Operational costs of leased property	0.03%	0.01%	0.01%	0.04%	0.04%	0.11%
Amortization of bond issuance costs	0.00%	0.00%	0.00%	0.00%	0.05%	0.05%
Loss on disposal of assets	0.02%	0.06%	0.00%	0.00%	0.00%	0.00%
Interest and fees on capital related debt	1.53%	1.76%	1.84%	1.92%	2.17%	2.11%
Total Non-Operating Expenses	<u>1.57%</u>	<u>1.84%</u>	<u>1.85%</u>	<u>1.96%</u>	<u>2.27%</u>	<u>2.27%</u>
Total Expenses	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

Note: Due to reporting format and definition changes prescribed by GASB 34/35, only fiscal years 2011 to 2016 are reported.

**Vernon College
Statistical Supplement 4
Tuition and Fees
Last Ten Academic Years
(Unaudited)**

Resident Vernon Campus Fees per Semester Credit Hour (SCH)								
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Academic Year (Fall)	In-District Tuition	Out-of-District Tuition	Institutional Service Fee	Student Activity Fee	Cost for 12 SCH In-District	Cost for 12 SCH Out-of-District	Increase from Prior Year In-District	Increase from Prior Year Out-of-District
2015	48.00	95.00	34.00	6.00	1,056.00	1,620.00	0.00%	3.85%
2014	48.00	90.00	34.00	6.00	1,056.00	1,560.00	0.00%	0.00%
2013	48.00	90.00	34.00	6.00	1,056.00	1,560.00	2.33%	1.56%
2012	48.00	90.00	32.00	6.00	1,032.00	1,536.00	6.17%	6.67%
2011	46.00	85.00	29.00	6.00	972.00	1,440.00	5.19%	11.11%
2010	44.00	75.00	27.00	6.00	924.00	1,296.00	5.48%	6.93%
2009	42.00	70.00	25.00	6.00	876.00	1,212.00	10.61%	8.02%
2008	39.00	66.50	21.00	6.00	792.00	1,122.00	24.53%	20.65%
2007	36.00	60.50	11.00	6.00	636.00	930.00	8.16%	5.44%
2006	32.00	56.50	11.00	6.00	588.00	882.00	N/A	N/A

Non-Resident Vernon Campus Fees per Semester Credit Hour (SCH)								
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Academic Year (Fall)	Non-Resident Tuition Out of State	Non-Resident Tuition International	Institutional Service Fee	Student Activity Fee	Cost for 12 SCH Out-of-State	Cost for 12 SCH International	Increase from Prior Year In-District	Increase from Prior Year Out-of-District
2015	160.00	160.00	34.00	6.00	2,400.00	2,400.00	0.00%	0.00%
2014	160.00	160.00	34.00	6.00	2,400.00	2,400.00	0.00%	0.00%
2013	160.00	160.00	34.00	6.00	2,400.00	2,400.00	1.01%	1.01%
2012	160.00	160.00	32.00	6.00	2,376.00	2,376.00	7.03%	7.03%
2011	150.00	150.00	29.00	6.00	2,220.00	2,220.00	13.50%	13.50%
2010	130.00	130.00	27.00	6.00	1,956.00	1,956.00	7.95%	7.95%
2009	120.00	120.00	25.00	6.00	1,812.00	1,812.00	9.42%	9.42%
2008	111.00	111.00	21.00	6.00	1,656.00	1,656.00	15.00%	15.00%
2007	103.00	103.00	11.00	6.00	1,440.00	1,440.00	6.19%	6.19%
2006	96.00	96.00	11.00	6.00	1,356.00	1,356.00	N/A	N/A

Note: Includes basic enrollment tuition and fees but excludes course based fees such as laboratory fees, testing fees, and certification fees.

**Vernon College
Statistical Supplement 5
Assessed Value and Taxable Assessed Value of Property
Last Ten Years
(Unaudited)**

<u>Fiscal Year</u>	<u>Assessed Valuation of Property</u>	<u>Less: Exemptions</u>	<u>Taxable Assessed Value (TAV)</u>	<u>Ratio of Taxable Assessed Value to Assessed Value</u>	<u>Maintenance and Operation (a)</u>	<u>Debt Service (a)</u>	<u>Total (a)</u>
2015-16	\$ 1,982,985,410	\$ 746,032,540	\$ 1,236,952,870	62.38%	\$ 0.22000	\$ 0.00000	\$ 0.22000
2014-15	1,859,401,310	654,132,720	1,205,268,590	64.82%	0.21767	0.00000	0.21767
2013-14	1,818,956,660	636,775,446	1,182,181,214	64.99%	0.22212	0.00000	0.22212
2012-13	1,595,309,430	608,833,820	986,475,610	61.84%	0.22285	0.00000	0.22285
2011-12	1,523,966,580	615,951,780	908,014,800	59.58%	0.22343	0.00000	0.22343
2010-11	1,498,674,530	611,389,270	887,285,260	59.20%	0.22672	0.00000	0.22672
2009-10	1,529,569,880	626,657,640	902,912,240	59.03%	0.22280	0.00000	0.22280
2008-09	1,456,143,210	529,537,760	926,605,450	63.63%	0.21737	0.00000	0.21737
2007-08	1,264,925,500	349,950,230	914,975,270	72.33%	0.21869	0.00000	0.21869
2006-07	1,171,062,460	251,862,620	919,199,840	78.49%	0.21869	0.00000	0.21869

Source: Wilbarger County Appraisal District

Notes: Property is assessed at full market value.
(a) per \$100 Taxable Assessed Valuation

Vernon College
Statistical Supplement 6
State Appropriations Per FTSE and Contact Hour
Last Ten Fiscal Years
(Unaudited)

Fiscal Year	State Appropriations	Appropriation per FTSE		Appropriation per Contact Hour			State Appropriation Per Contact Hour
		FTSE	State Appropriations Per FTSE	Academic Contact Hours	Voc/Tech Contact Hours	Total Contact Hours	
2015-16	5,586,382	1,898	2,944	750,651	807,321	1,557,972	3.59
2014-15	5,511,466	1,959	2,814	756,262	815,331	1,571,593	3.51
2013-14	5,511,466	2,376	2,319	822,400	821,542	1,643,942	3.35
2012-13	5,525,348	2,335	2,366	838,848	799,548	1,638,396	3.37
2011-12	5,852,020	2,259	2,591	858,800	796,761	1,655,561	3.53
2010-11	5,454,584	2,720	2,006	874,720	1,071,662	1,946,382	2.80
2009-10	5,521,976	2,420	2,282	860,960	826,687	1,687,647	3.27
2008-09	5,453,123	2,106	2,589	756,960	796,234	1,553,194	3.51
2007-08	5,453,123	1,999	2,728	740,544	689,139	1,429,683	3.81
2006-07	5,454,838	1,957	2,788	726,928	698,679	1,425,607	3.83

Notes: FTSE is calculated by dividing the SCH by 30 and non semester length technical contact hours by 900.

State Appropriations include only the formula produced amounts for Academic and Voc Tech Programs.

**Vernon College
Statistical Supplement 7
Principal Taxpayers
Last Nine Tax Years
(Unaudited)**

Taxpayer	Type of Business	Taxable Assessed Valuation (TAV) by Tax Year								
		2016	2015	2014	2013	2012	2011	2010	2009	2008
Electric Transmission of Texas	Electricity Distribution	\$ 164,103,380	\$ 147,972,970	\$ 86,598,110	\$ 43,382,620	\$ 23,236,450	\$ 10,913,990			
AEP Texas North Company	Energy company	147,178,480	161,931,200	168,967,800	174,045,890	184,846,970	175,881,840	186,347,390	221,145,570	259,360,420
Blue Summit Wind, LLC	Wind Farm	118,421,030	145,060,550	166,668,370	191,173,200					
AEP Public Service Co of Oklahoma	Energy company	56,405,710	59,139,670	59,481,220	51,041,830	51,378,340	49,330,580	58,018,740	55,415,220	55,975,710
Oklahoma Municipal Power Authority	Energy company	35,646,290	33,391,360	34,238,180	35,340,650	33,682,770	32,929,510	30,694,140	31,554,780	28,978,660
Tyson Foods, Inc	Food processing plant	35,037,410	32,676,840	32,862,470	34,825,270	38,836,140	36,724,230	27,432,690	28,204,470	30,766,480
Solvay (Rhodia), Inc	Guar processing plant	24,315,450	25,225,340	21,923,000	25,243,480	22,484,120	18,935,300	17,946,960	22,765,170	22,555,420
BNSF Railway	Railroad company	23,450,500	21,475,840	21,588,920	21,558,190	19,890,160	17,537,810	14,756,370	13,437,470	12,769,020
WT Waggoner Estate	Farming, ranching, oil & gas	16,144,770	26,874,080	29,790,920	28,159,810	30,417,350	25,172,210	25,087,580	23,450,170	24,037,680
Oncor Electric Delivery	Electricity Distribution	15,274,310	17,145,400		13,384,910	8,212,510				
Mahard Egg Farm	Egg farm	14,041,370	16,885,140	17,630,080	18,949,050	18,677,420	18,811,580	19,967,630	21,258,480	9,740,310
Tradition Resources, LLC	Energy company	10,638,800	15,680,840	16,539,260	11,033,130	11,140,290				
Vernon FL, LLC	Automobile Dealerships	9,512,440	20,151,180	14,123,750						
Joseph D & Joan P Rogers	Hotels	6,825,670								
Totals		\$ 676,995,610	\$ 723,610,410	\$ 670,412,080	\$ 648,138,030	\$ 442,802,520	\$ 386,237,050	\$ 380,251,500	\$ 417,231,330	\$ 444,183,700
Total Assessed Taxable Value		\$ 1,236,952,870	\$ 1,205,268,590	\$ 1,182,181,214	\$ 986,475,610	\$ 908,014,800	\$ 887,285,260	\$ 902,912,240	\$ 926,605,450	\$ 914,975,270

Taxpayer	Type of Business	Percentage Taxable Assessed Valuation (TAV) by Tax Year								
		2016	2015	2014	2013	2012	2011	2010	2009	2008
Electric Transmission of Texas	Electricity Distribution	13.27%	12.28%	7.33%	4.40%	2.56%	1.23%	0.00%	0.00%	0.00%
AEP Texas North Company	Energy company	11.90%	13.44%	14.29%	17.64%	20.36%	19.82%	20.64%	23.87%	28.35%
Blue Summit Wind, LLC	Wind Farm	9.57%	12.04%	14.10%	19.38%	0.00%	0.00%	0.00%	0.00%	0.00%
AEP Public Service Co of Oklahoma	Energy company	4.56%	4.91%	5.03%	5.17%	5.66%	5.56%	6.43%	5.98%	6.12%
Oklahoma Municipal Power Authority	Energy company	2.88%	2.77%	2.90%	3.58%	3.71%	3.71%	3.40%	3.41%	3.17%
Tyson Foods, Inc	Food processing plant	2.83%	2.71%	2.78%	3.53%	4.28%	4.14%	3.04%	3.04%	3.36%
Solvay (Rhodia), Inc	Guar processing plant	1.97%	2.09%	1.85%	2.56%	2.48%	2.13%	1.99%	2.46%	2.47%
BNSF Railway	Railroad company	1.90%	1.78%	1.83%	2.19%	2.19%	1.98%	1.63%	1.45%	1.40%
WT Waggoner Estate	Farming, ranching, oil & gas	1.31%	2.23%	2.52%	2.85%	3.35%	2.84%	2.78%	2.53%	2.63%
Oncor Electric Delivery	Electricity Distribution	1.23%	1.42%	0.00%	1.36%	0.90%	0.00%	0.00%	0.00%	0.00%
Mahard Egg Farm	Egg farm	1.14%	1.40%	1.49%	1.92%	2.06%	2.12%	2.21%	2.29%	1.06%
Tradition Resources, LLC	Energy company	0.86%	1.30%	1.40%	1.12%	1.23%	0.00%	0.00%	0.00%	0.00%
Vernon FL, LLC	Automobile Dealerships	0.77%	1.67%	1.19%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Joseph D & Joan P Rogers	Hotels	0.55%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Totals		54.73%	60.04%	56.71%	65.70%	48.77%	43.53%	42.11%	45.03%	48.55%

**Vernon College
Statistical Supplement 8
Property Tax Levies and Collections
Last Ten Years
(Unaudited)**

Fiscal Year Ended August 31,	Levy (a)	Cumulative Levy Adjustment	Adjusted Tax Levy (b)	Collections Year of Levy (c)	Percentage	Prior Collections of Prior Levies (d)	Current Collections of Prior Levies (e)	Total Collections (c+d+e)	Cumulative Collections of Adjusted Levy
2016	\$ 2,722,455	\$ (27,815)	\$ 2,694,640	\$ 2,643,759	98.11%	\$ -	\$ -	\$ 2,643,759	98.11%
2015	2,623,156	(9,541)	2,613,615	2,574,026	98.49%	-	18,446	2,592,472	99.19%
2014	2,625,712	(4,798)	2,620,914	2,541,707	96.98%	58,077	6,539	2,606,323	99.44%
2013	2,198,223	(3,418)	2,194,805	2,116,137	96.42%	65,185	2,952	2,184,274	99.52%
2012	2,028,437	(1,836)	2,026,601	1,986,272	98.01%	29,700	1,686	2,017,658	99.56%
2011	2,018,225	(5,004)	2,013,220	1,966,566	97.68%	37,241	704	2,004,511	99.57%
2010	2,010,444	(1,749)	2,008,694	1,962,237	97.69%	39,699	315	2,002,251	99.68%
2009	2,014,162	(5,180)	2,008,982	1,961,432	97.63%	39,941	236	2,001,609	99.63%
2008	2,001,065	2,685	2,003,750	1,973,462	98.49%	23,775	205	1,997,442	99.69%
2007	2,010,198	(8,195)	2,002,003	1,975,506	98.68%	20,278	301	1,996,085	99.70%

Source: Local Tax Assessor /Collector and District Records

(a) As reported in notes to the financial statements for the year of the levy

(b) As of August 31st of the current reporting year

(c) Property tax only - does not include penalties and interest

(d) Represents cumulative collections of prior years not collected in the current year or the year of the tax levy

(e) Represents current year collections of prior year levies

**Vernon College
Statistical Supplement 9
Ratios of Outstanding Debt
Last Ten Years
(Unaudited)**

	For the Years Ended August 31,									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Revenue bonds	\$ 9,835,547	\$ 10,285,000	\$ 10,760,000	\$ 11,225,000	\$ 11,680,000	\$ 12,125,000	\$ 6,540,000	\$ 6,845,000	\$ 7,135,000	\$ 7,415,000
Notes	-	-	-	-	-	-	-	-	-	-
Capital lease obligations	418,103	565,880	704,274	833,132	952,991	1,064,363	1,167,734	1,263,029	1,347,594	1,423,863
Total Outstanding Debt	\$ 10,253,650	\$ 10,850,880	\$ 11,464,274	\$ 12,058,132	\$ 12,632,991	\$ 13,189,363	\$ 7,707,734	\$ 8,108,029	\$ 8,482,594	\$ 8,838,863
Total Outstanding Debt Ratios										
Per Capita	not available	not available	883.70	918.30	952.86	976.27	562.98	588.31	604.30	621.67
Per FTSE	5,402	5,539	4,825	5,164	5,592	4,849	3,185	3,850	4,243	4,517
As a percentage of Taxable Assessed Value	1.1292%	1.1950%	1.2626%	1.3280%	1.4238%	1.4608%	0.8750%	0.9271%	0.9616%	1.0132%

Notes: Ratios calculated using population and TAV from current year. Debt per student using full-time equivalent enrollment.

**Vernon College
Statistical Supplement 10
Legal Debt Margin Information
Last Ten Years
(Unaudited)**

	For the Years Ended August 31,									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Taxable Assessed Valuation	\$ 1,236,952,870	\$ 1,205,268,590	\$ 1,182,181,214	\$ 986,475,610	\$ 908,014,800	\$ 887,285,260	\$ 902,912,240	\$ 926,605,450	\$ 914,975,270	\$ 919,199,840
General Obligation Bonds	-	-	-	-	-	-	-	-	-	-
Statutory tax levy limit for debt service	\$ 6,184,764	\$ 6,026,343	\$ 5,910,906	\$ 4,932,378	\$ 4,540,074	\$ 4,436,426	\$ 4,514,561	\$ 4,633,027	\$ 4,574,876	\$ 4,595,999
Less funds restricted for repayment of bonds	-	-	-	-	-	-	-	-	-	-
Total Net General Obligation Debt	6,184,764	6,026,343	5,910,906	4,932,378	4,540,074	4,436,426	4,514,561	4,633,027	4,574,876	4,595,999
Current year debt service requirement	-	-	-	-	-	-	-	-	-	-
Excess of statutory limit for debt service over current requirement	\$ 6,184,764	\$ 6,026,343	\$ 5,910,906	\$ 4,932,378	\$ 4,540,074	\$ 4,436,426	\$ 4,514,561	\$ 4,633,027	\$ 4,574,876	\$ 4,595,999
Net current requirement as a percentage of statutory limit	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

Note: Vernon College has had no outstanding General Obligation Bond Debt for over ten years

**Vernon College
Statistical Supplement 11
Pledged Revenue Coverage
Last Ten Years
(Unaudited)**

Revenue Bonds

Fiscal Year Ended August 31	Pledged Revenues						Debt Service Requirements			Coverage Ratio
	Tuition	Laboratory/ Special Fee	General Registration Fees	Facility/Farm Lease Revenue	Investment Income	Total	Principal	Interest	Total	
2016	\$ 5,142,037	\$ 680,853	\$ 4,732,292	\$ 24,929	\$ 11,506	\$10,591,617	\$ 485,000	\$ 327,261	\$ 812,261	13.04
2015	5,530,916	650,171	4,358,436	18,516	18,732	10,576,771	475,000	388,325	863,325	12.25
2014	6,070,149	657,547	3,771,494	14,158	19,721	10,533,069	465,000	399,119	864,119	12.19
2013	5,749,880	659,514	3,702,329	17,161	42,379	10,171,262	455,000	409,700	864,700	11.76
2012	5,431,705	678,138	3,506,215	60,461	29,086	9,705,605	445,000	419,931	864,931	11.22
2011	5,091,415	689,749	3,246,912	65,825	80,272	9,174,172	450,000	417,997	867,997	10.57
2010	4,737,506	681,811	2,888,778	168,044	79,481	8,555,620	305,000	327,650	632,650	13.52
2009	4,271,778	1,011,005	1,656,588	410,698	97,183	7,447,252	290,000	355,297	645,297	11.54
2008	4,042,027	577,058	1,136,510	414,658	123,301	6,293,554	280,000	382,925	662,925	9.49
2007	3,977,289	628,510	1,173,656	407,967	179,007	6,366,429	260,000	396,997	656,997	9.69

**Vernon College
 Statistical Supplement 12
 Demographic and Economic Statistics - Taxing District (Wilbarger County)
 Last Ten Fiscal Years
 (Unaudited)**

Calendar Year	District Population	District Personal Income (a) (thousands of dollars)	District Personal Income Per Capita	District Unemployment Rate
2016	Not Available	b	b	5.7%
2015	Not Available	b	b	5.5%
2014	12,973	506,917	39,075	5.5%
2013	13,131	533,490	40,628	4.9%
2012	13,258	505,562	38,133	5.8%
2011	13,258	472,359	35,628	6.2%
2010	13,510	463,963	34,342	6.1%
2009	13,691	441,218	32,227	7.0%
2008	13,782	437,000	31,708	3.7%
2007	14,037	414,220	29,509	3.4%

Sources:

Population and personal income from U.S. Bureau of Economic Analysis
 Unemployment rate from Texas Workforce Commission
 Texas LMI Tracer <http://www.tracer2.com>

Notes:

- a. Taxing District = Wilbarger County
- b. Not yet available

**Vernon College
Statistical Supplement 13
Principal Employers
Fiscal Year 2016
(Unaudited)**

<u>Employer</u>	<u>Number of Employees</u>	<u>Percentage of Total Employment (1, 2)</u>
North Texas State Hospital	1000+	17.49%
Tyson Foods, Inc	500 - 999	10.50%
Hospital Home Health	100 - 499	4.20%
Vernon City Hall	100 - 499	4.20%
Vernon College	100 - 499	4.20%
Vernon Public Schools	100 - 499	4.20%
United Supermarket	100 - 499	4.20%
Walmart	100 - 499	4.20%
Wilbarger General Hospital	100 - 499	4.20%
Covenant Care of Vernon	50 - 99	1.05%
Eagle Flats Village	50 - 99	1.05%
Herring Bank	50 - 99	1.05%
McDonalds	50 - 99	1.05%
Rhodia	50 - 99	1.05%
Waggoner National Bank	50 - 99	1.05%
 Total	 <u>2450-5686</u>	 <u>63.69%</u>

Source:

Employer search <http://socrates.cdr.state.tx.us/> , November 2015
Labor Force - Socrates County Narrative Profile, November 2015

Note:

4745

2. Percentages are calculated using the midpoints of the ranges.

**Vernon College
Statistical Supplement 14
Faculty, Staff, and Administrators Statistics
Last Ten Years
(Unaudited)**

	Fiscal Year Ended August 31,									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Faculty										
FT	97	91	88	83	81	81	77	74	74	73
PT	78	68	75	80	76	81	88	75	77	83
Total	175	159	163	163	157	162	165	149	151	156
Percent										
FT	55%	57%	54%	51%	52%	50%	47%	50%	49%	47%
PT	45%	43%	46%	49%	48%	50%	53%	50%	51%	53%
Staff & Adm										
FT	143	145	145	141	140	143	139	136	138	145
PT	3	3	3	4	5	4	9	-	-	-
Total	146	148	148	145	145	147	148	136	138	145
Percent										
FT	98%	98%	98%	97%	97%	97%	94%	100%	100%	100%
PT	2%	2%	2%	3%	3%	3%	6%	0%	0%	0%
FTSE	1,898	1,959	2,376	2,335	2,259	2,720	2,420	2,106	1,999	1,957
FT Faculty	19.57	21.53	27.00	28.13	27.89	33.58	31.43	28.46	27.01	26.81
FT Staff	13.27	13.51	16.39	16.56	16.14	19.02	17.41	15.49	14.49	13.50
Fac Sal	\$ 4,712,955	\$ 4,666,619	\$ 4,357,658	\$ 3,809,445	\$ 3,794,882	\$ 3,558,609	\$ 3,373,083	\$ 3,235,850	\$ 3,110,721	\$ 2,909,602
Avg. Fac	\$ 48,587	\$ 51,282	\$ 49,519	\$ 45,897	\$ 46,850	\$ 43,933	\$ 43,806	\$ 43,728	\$ 42,037	\$ 39,858

**Vernon College
Statistical Supplement 15
Enrollment Details
Last Five Fiscal Years
(Unaudited)**

Credit Student Classification	Fall 2015		Fall 2014		Fall 2013		Fall 2012		Fall 2011	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
0 - 30 hours	2091	72.33%	2044	68.38%	2105	68.26%	2116	67.86%	2320	71.45%
31 - 60 hours	600	20.75%	853	28.54%	884	28.66%	890	28.54%	816	25.13%
> 60 hours	200	6.92%	92	3.08%	95	3.08%	112	3.59%	111	3.42%
Total	2891	100.00%	2989	100.00%	3084	100.00%	3118	100.00%	3247	100.00%

Non-Credit Student Classification	Fall 2015		Fall 2014		Fall 2013		Fall 2012		Fall 2011	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
CEU Students Only	1034	68.61%	876	67.70%	1089	71.04%	858	70.62%	757	72.58%
0 - 30 hours	309	20.50%	274	21.17%	280	18.26%	203	16.71%	190	18.22%
31 - 60 hours	102	6.77%	96	7.42%	109	7.11%	97	7.98%	63	6.04%
> 60 hours	62	4.11%	48	3.71%	55	3.59%	57	4.69%	33	3.16%
Total	1507	100.00%	1294	100.00%	1533	100.00%	1215	100.00%	1043	100.00%

Semester Hour Load	Fall 2015		Fall 2014		Fall 2013		Fall 2012		Fall 2011	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Less than 3	5	0.17%	17	0.57%	15	0.49%	35	1.12%	40	1.23%
3 - 5 semester hours	513	17.74%	481	16.09%	550	17.83%	592	18.99%	660	20.33%
6 - 8 semester hours	870	30.09%	885	29.61%	843	27.33%	821	26.33%	838	25.81%
9 - 11 semester hours	481	16.64%	533	17.83%	577	18.71%	721	23.12%	714	21.99%
12 - 14 semester hours	830	28.71%	875	29.27%	905	29.35%	799	25.63%	812	25.01%
15 - 17 semester hours	179	6.19%	188	6.29%	185	6.00%	142	4.55%	178	5.48%
18 & over	13	0.45%	10	0.33%	9	0.29%	8	0.26%	5	0.15%

Sub-Total SCH Students	2891	100.00%	2989	100.00%	3084	100.00%	3118	100.00%	3247	100.00%
Average SCH course load	8.92		8.93		8.84		8.66		8.57	
Non-Credit CEU Students	1507		1294		1533		1215		1043	
Total	4398		4283		4617		4333		4290	

Credit Tuition Status	Fall 2015		Fall 2014		Fall 2013		Fall 2012		Fall 2011	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Texas Resident (in-district)	272	9.41%	251	8.40%	243	7.88%	295	9.46%	306	9.42%
Texas Resident (out-of-dist)	2566	88.76%	2699	90.30%	2805	90.95%	2781	89.19%	2887	88.91%
Non-Resident Tuition	53	1.83%	39	1.30%	36	1.17%	42	1.35%	54	1.66%
Total	2891	100.00%	2989	100.00%	3084	100.00%	3118	100.00%	3247	100.00%

Non-Credit Tuition Status	Fall 2015		Fall 2014		Fall 2013		Fall 2012		Fall 2011	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
CEU Students Only	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%
CEU Contract & Non-Contract	15	1.00%	3	0.23%	16	1.04%	3	0.25%	1	0.10%
CEU Contract Only	1331	88.32%	856	66.15%	1189	77.56%	964	79.34%	736	70.57%
CEU Non-Contract Only	161	10.68%	435	33.62%	328	21.40%	248	20.41%	306	29.34%
Total	1507	100.00%	1294	100.00%	1533	100.00%	1215	100.00%	1043	100.00%

**Vernon College
Statistical Supplement 16
Student Profile
Last Five Fiscal Years
(Unaudited)**

	Fall 2015		Fall 2014		Fall 2013		Fall 2012		Fall 2011	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Gender										
Female	2532	57.57%	2573	60.07%	2829	61.27%	2682	61.90%	2664	62.10%
Male	1866	42.43%	1710	39.93%	1788	38.73%	1651	38.10%	1626	37.90%
Total	4398	100.00%	4283	100.00%	4617	100.00%	4333	100.00%	4290	100.00%

	Fall 2015		Fall 2014		Fall 2013		Fall 2012		Fall 2011	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Ethnic Origin										
White	2960	67.30%	2900	67.71%	3100	67.14%	2920	67.39%	2933	68.37%
Hispanic	784	17.83%	765	17.86%	712	15.42%	659	15.21%	647	15.08%
African American	346	7.87%	350	8.17%	439	9.51%	362	8.35%	377	8.79%
Asian	78	1.77%	65	1.52%	82	1.78%	70	1.62%	62	1.45%
Foreign	11	0.25%	4	0.09%	0	0.00%	1	0.02%	1	0.02%
Native American	39	0.89%	36	0.84%	53	1.15%	56	1.29%	50	1.17%
Other	180	4.09%	163	3.81%	231	5.00%	265	6.12%	220	5.13%
Total	4398	100.00%	4283	100.00%	4617	100.00%	4333	100.00%	4290	100.00%

	Fall 2015		Fall 2014		Fall 2013		Fall 2012		Fall 2011	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Age (Credit Students)										
Under 18	524	18.13%	447	14.95%	506	16.41%	545	17.48%	565	17.40%
18 - 21	1069	36.98%	1073	35.90%	1097	35.57%	1120	35.92%	1175	36.19%
22 - 24	362	12.52%	363	12.14%	398	12.91%	372	11.93%	355	10.93%
25 - 35	647	22.38%	746	24.96%	682	22.11%	699	22.42%	768	23.65%
36 - 50	248	8.58%	301	10.07%	320	10.38%	318	10.20%	315	9.70%
51 & over	41	1.42%	59	1.97%	81	2.63%	64	2.05%	69	2.13%
Total	2891	100.00%	2989	100.00%	3084	100.00%	3118	100.00%	3247	100.00%

Average Age	24.0	25.0	25.0	24.0	24.0
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	Fall 2015		Fall 2014		Fall 2013		Fall 2012		Fall 2011	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Age (Non-Credit Students)										
Under 18	297	19.71%	279	21.56%	308	20.09%	178	14.65%	230	22.05%
18 - 21	119	7.90%	147	11.36%	146	9.52%	108	8.89%	99	9.49%
22 - 24	107	7.10%	102	7.88%	115	7.50%	76	6.26%	64	6.14%
25 - 35	320	21.23%	262	20.25%	277	18.07%	264	21.73%	204	19.56%
36 - 50	361	23.95%	258	19.94%	342	22.31%	311	25.60%	223	21.38%
51 & over	303	20.11%	246	19.01%	345	22.50%	278	22.88%	223	21.38%
Total	1507	100.00%	1294	100.00%	1533	100.00%	1215	100.00%	1043	100.00%

Average Age	35.0	33.0	35.0	37.0	35.0
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Vernon College
Statistical Supplement 17
Transfers to Senior Institutions
2014 Fall Students as of Fall 2015
(Includes only public senior colleges in Texas)
(Unaudited)

	Transfer Student Count <u>Academic</u>	Transfer Student Count <u>Technical</u>	Total of all Sample Transfer Students	% of all Sample Transfer Students
1 Angelo State University	5	2	7	1.39%
2 Lamar University			-	0.00%
3 Midwestern State University	250	55	305	60.64%
4 Prairie View A&M University	1		1	0.20%
5 Sam Houston State University	1		1	0.20%
6 Stephen F. Austin State University	2		2	0.40%
7 Sul Ross State University	1		1	0.20%
8 Tarleton State University	20	6	26	5.17%
9 Texas A&M University	11		11	2.19%
10 Texas A&M University - Commerce		2	2	0.40%
11 Texas A&M University - Corpus Christi	3		3	0.60%
12 Texas Southern University			-	0.00%
13 Texas State University - San Marcos	6		6	1.19%
14 Texas Tech University	54	5	59	11.73%
15 Texas Woman's University	3		3	0.60%
16 The University of Texas at Arlington	12	7	19	3.78%
17 The University of Texas at Austin	3		3	0.60%
18 The University of Texas at Dallas	2	1	3	0.60%
19 The University of Texas at El Paso	1		1	0.20%
20 The University of Texas of the Permian Basin	7	1	8	1.59%
21 University of Houston	1		1	0.20%
22 University of Houston - Victoria	1		1	0.20%
23 University of North Texas	25		25	4.97%
24 West Texas A&M University	11	4	15	2.98%
	<u>420</u>	<u>83</u>	<u>503</u>	<u>100.00%</u>

Vernon College
Statistical Supplement 18
Capital Asset Information
Fiscal Years 2012 to 2016
(Unaudited)

	Fiscal Years				
	2016	2015	2014	2013	2012
Academic Buildings	6	6	6	6	6
Square footage	298,529	298,529	298,529	298,529	298,529
Libraries	1	1	1	1	1
Square footage	17,500	14,000	10,500	7,000	3,500
Number of volumes	33,719	33,719	33,719	33,719	33,719
Administrative and support buildings	1	1	1	1	1
Square footage	28,287	28,287	28,287	28,287	28,287
Dormitories	2	2	2	2	2
Square footage	27,214	27,214	27,214	27,214	27,214
Number of beds	156	156	156	156	156
Dining Facilities	1	1	1	1	1
Square footage	10,170	10,170	10,170	10,170	10,170
Average daily customers	250	250	250	250	250
Athletic Facilities	6	6	6	6	6
Square footage	39,987	39,987	39,987	39,987	39,987
Stadiums	3	3	3	3	3
Gymnasiums	1	1	1	1	1
Fitness Centers	1	1	1	1	1
Tennis Courts	6	6	6	6	6
Plant Facilities	1	1	1	1	1
Square footage	11,000	11,000	11,000	11,000	11,000
Transportation					
Cars	1	1	1	1	1
Light trucks/vans	14	14	14	14	14
Buses	3	3	3	3	3

Overall Compliance, Internal Controls and Federal Awards Section



EDGIN, PARKMAN, FLEMING & FLEMING, PC

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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 College
Vernon, Texas

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 Vernon College and its discretely presented component unit, Vernon College Foundation, Incorporated, as of and for the year ended August 31, 2016, and the related notes to the financial statements, which collectively comprise Vernon College's basic financial statements, and have issued our report thereon dated December 2, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Vernon College'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 Vernon College's internal control. Accordingly, we do not express an opinion on the effectiveness of Vernon College'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 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 over financial reporting 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 financial reporting 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 Vernon College'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*.

Public Funds Investment Act

We have performed tests designed to verify Vernon College's compliance with the requirements of the Public Funds Investment Act. During the year ended August 31, 2016, no instances of noncompliance were noted.

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.

Respectfully submitted,



EDGIN, PARKMAN, FLEMING & FLEMING, PC

December 2, 2016



EDGIN, PARKMAN, FLEMING & FLEMING, PC

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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 College
Vernon, Texas

Report on Compliance for Each Major Federal Program

We have audited Vernon College's compliance with the types of compliance requirements described in the OMB *Compliance Supplement* that could have a direct and material effect on Vernon College's major federal program for the year ended August 31, 2016. Vernon College'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 the requirements of laws, regulations, contracts and grants applicable to its federal and state programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Vernon College's major federal program 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 Vernon College'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 the major federal program. However, our audit does not provide a legal determination on Vernon College's compliance.

Opinion on Each Major Federal Program

In our opinion, Vernon College complied, in all material respects, with the 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 Vernon College 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 Vernon College's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with 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 Vernon College'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 or state 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 or state 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 consider 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 Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Respectfully submitted,

Edgin, Parkman, Fleming & Fleming, PC

EDGIN, PARKMAN, FLEMING & FLEMING, PC

December 2, 2016

**VERNON COLLEGE
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:	
Material weakness(es) identified?	No
Control deficiency(ies) identified that are not considered to be material weaknesses?	None Reported
Noncompliance material to financial statements noted?	No

2. Federal and State Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Control deficiency(ies) identified that are not considered to be material weaknesses?	No
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported under CFR Section 200.516(a) of Uniform Guidance?	No

Identification of major programs:	
Federal Programs:	<u>CFDA Number</u>
Student Financial Aid Cluster:	
Supplemental Educational Opportunity Grant (FSEOG)	84.007
Federal Work-Study Program (FWS)	84.033
Federal Pell Grant Program (Pell)	84.063
Federal Direct Student Loans (Direct Loan)	84.268

Dollar threshold used to distinguish between type A and type B programs:	\$750,000
Auditee qualified as low-risk auditee?	Yes

VERNON COLLEGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONT'D.)
FOR THE YEAR ENDED AUGUST 31, 2016

B. Financial Statement Findings

None

C. Federal Award Findings and Questioned Costs

None

**VERNON COLLEGE
SCHEDULE OF CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED AUGUST 31, 2016**

There are no findings in the current year.

VERNON COLLEGE
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2016

There were no findings in the prior year.