

**VERNON  
INDEPENDENT SCHOOL DISTRICT**

*ANNUAL FINANCIAL REPORT*

*FOR THE YEAR ENDED AUGUST 31, 2018*

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Vernon Independent School District  
Annual Financial Report  
For The Year Ended August 31, 2018

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Annual Financial Report  
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*Introductory Section*

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CERTIFICATE OF BOARD

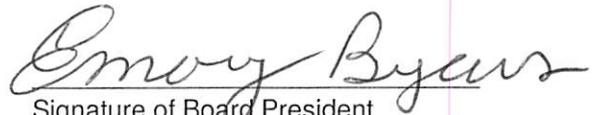
Vernon Independent School District  
Name of School District

Wilbarger  
County

244-903  
Co.-Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above named school district were reviewed and (check one)  approved  disapproved for the year ended August 31, 2018, at a meeting of the board of trustees of such school district on the 10<sup>th</sup> day of December, 2018.

  
\_\_\_\_\_  
Signature of Board Secretary

  
\_\_\_\_\_  
Signature of Board President

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

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*Financial Section*

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

## **Independent Auditor's Report**

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Vernon Independent School District ("the District") as of and for the year ended August 31, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Vernon Independent School District as of August 31, 2018, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Change in Accounting Principle**

As described in Note A to the financial statements, in 2018, Vernon Independent School District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions. Our opinion is not modified with respect to this matter.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, and budgetary comparison information and schedule of the District's proportionate share of the net pension liability and schedule of District pension contributions, and schedule of the District's proportionate share of the net OPEB liability and schedule of District OPEB contributions identified as Required Supplementary Information in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

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

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

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated December 1, 2018 on our consideration of Vernon Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Vernon Independent School District's internal control over financial reporting and compliance.



Moore, Truelove, Pharis, Meyers & Marsh, CPAs, PLLC  
Vernon, TX  
December 1, 2018

*Management's Discussion and Analysis*

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Vernon Independent School District's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year ended August 31, 2018. Please read it in conjunction with the District's financial statements, which follow this section.

### FINANCIAL HIGHLIGHTS

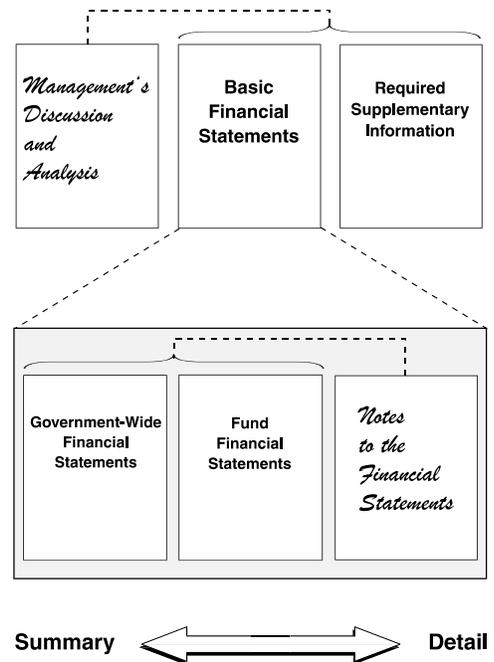
- The District's total combined net position was \$14,653,702 at August 31, 2018.
- During the year, the District's expenses were \$4,504,246 less than the \$19,820,975 generated in taxes and other revenues for governmental activities.
- The general fund reported a fund balance this year of \$9,798,268.

### OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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



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

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

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

Type of Statements	Fund Statements			
	Government-wide	Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire Agency's government (except fiduciary funds) and the Agency's component units	The activities of the district that are not proprietary or fiduciary	Activities the district operates similar to private businesses: self insurance	Instances in which the district is the trustee or agent for someone else's resources
Required financial statements	<ul style="list-style-type: none"> <li>Statement of net position</li> <li>Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>Balance sheet</li> <li>Statement of revenues, expenditures &amp; changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>Statement of net position</li> <li>Statement of revenues, expenses and changes in fund net position</li> <li>Statement of cash flows</li> </ul>	<ul style="list-style-type: none"> <li>Statement of fiduciary net position</li> <li>Statement of changes in fiduciary net position</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; the Agency's funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

### Government-wide Statements

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

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

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

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

### Fund Financial Statements

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

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

The District has the following kinds of funds:

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

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

## FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

**Net position.** The District's combined net position was \$14,653,702 at August 31, 2018. (See Table A-1).

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

	Governmental Activities		Total Percentage Change
	<u>2018</u>	<u>2017</u>	<u>2017-2018</u>
<b>Current assets:</b>			
Cash and cash equivalents	\$ 10,707	\$ 7,659	39.8%
Due from other governments	931	1,352	-31.1%
Property taxes (net)	301	278	8.3%
Other receivables	86	183	-53.0%
Inventories	38	38	0.0%
Unrealized expenses	95	95	-100.0%
Total current assets	<u>12,063</u>	<u>9,605</u>	25.6%
<b>Noncurrent assets:</b>			
Capital assets (net)	<u>17,122</u>	<u>17,687</u>	-3.2%
Total noncurrent assets	<u>17,122</u>	<u>17,687</u>	-3.2%
<b>Total Assets</b>	<u>29,185</u>	<u>27,292</u>	6.9%
<b>Deferred Outflows of Resources:</b>			
Deferred outflow related to pensions	1,249	1,680	-25.7%
Deferred outflow related to OPEB	107	107	0.0%
Total deferred outflow	<u>1,356</u>	<u>1,680</u>	-19.3%
<b>Current liabilities:</b>			
Accounts payable	381	296	28.7%
Accrued liabilities	818	740	10.5%
Due to other governments	243	84	189.3%
Total current liabilities	<u>1,442</u>	<u>1,120</u>	28.8%
<b>Long-term liabilities:</b>			
Bonds and notes	786	1,465	-46.3%
Net pension liability	3,272	3,796	-13.8%
Net OPEB liability	6,918	6,918	0.0%
<b>Total Liabilities</b>	<u>12,418</u>	<u>6,381</u>	94.6%

Deferred Inflows of Resources			
Deferred inflow related to pensions	577	312	84.9%
Deferred inflow related to pensions	<u>2,894</u>	<u>0</u>	
Total Deferred Inflows of Resources	<u>3,471</u>	<u>312</u>	1012.5%
Net Position:			
Invested in Capital Assets	16,539	16,432	0.7%
Restricted	459	415	10.6%
Unrestricted	<u>-2,344</u>	<u>5,432</u>	-143.2%
Total Net Position	\$ <u>14,654</u>	\$ <u>22,279</u>	-34.2%

Unrestricted net assets represent resources available to fund the programs of the District next year.

**Changes in net position.** The District's total revenues were \$19.8 million. A significant portion of the District's revenue comes from taxes and state aid formula. (See Figure A-2.)

The total cost of all programs and services was \$15.3 million.

#### Governmental Activities

- Property tax rates were lowered by 1 cent, however, this coupled with increasing values resulted in a increase of tax revenues of \$149 thousand.

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

	Governmental Activities		Total Percentage Change
	<u>2018</u>	<u>2017</u>	<u>2017-2018</u>
Program Revenues:			
Charges for Services	\$ 279	\$ 301	-7.31%
Operating Grants and Contributions	-642	3,305	-119.43%
General Revenues			
Property Taxes	9,876	9,727	1.53%
State Aid – Formula	8,245	7,490	10.08%
Investment Earnings	138	55	150.91%
Other	1,925	812	137.07%
Total Revenues	<u>19,821</u>	<u>21,690</u>	-8.62%
Instruction	7,966	12,407	-35.79%
Instructional Resources and Media Services	139	183	-24.04%
Curriculum Dev. And Instructional Staff Dev.	103	155	-33.55%
Instructional Leadership	201	271	-25.83%
School Leadership	743	1,153	-35.56%

Guidance, Counseling and Evaluation Services	488	777	-37.19%
Social Work Services	41	73	-43.84%
Health Services	117	195	-40.00%
Student (Pupil) Transportation	494	546	-9.52%
Food Services	860	1,131	-23.96%
Curricular/Extracurricular Activities	789	848	-6.96%
General Administration	716	738	-2.98%
Plant Maintenance & Oper.	1,944	2,174	-10.58%
Security & Monitoring Svcs.	25	16	56.25%
Data Processing Services	181	299	-39.46%
Community Services	9	3	200.00%
Debt Service	6	20	-70.00%
Bond Issuance Costs and Fees	2	2	0.00%
Payments to Fiscal Agent/Member Dist. – SSA	289	274	5.47%
Other Intergovernmental Charges	203	206	-1.46%
Total Expenses	<u>15,316</u>	<u>21,471</u>	-28.67%
Excess (Deficiency) Before Other Resources, Uses & Transfers	4,505	219	1957.08%
Other Resources (Uses)	-	-	
Prior Period Adjustment	-	-	
Increase (Decrease) in Net Position	<u>\$ 4,505</u>	<u>\$ 219</u>	1957.08%

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

- The cost of all *governmental* activities this year was \$15.3 million.
- However, the amount that our taxpayers paid for these activities through property taxes was \$9.9 million.
- Some of the cost was paid by those who directly benefited from the programs in the amount of \$0.3 million.

**Table A-3**  
Net Cost of Selected District Functions

	Total Cost of Services			% Change	Net Cost of Services		
	<u>2018</u>	<u>2017</u>			<u>2018</u>	<u>2017</u>	% Change
Instruction	\$ 7,966,238	\$ 12,407,207	-36%	\$ 8,845,062	\$ 10,771,978	-18%	
School administration	\$ 716,238	\$ 738,127	-3%	\$ 800,474	\$ 686,229	17%	
Plant Maintenance & Operations	\$ 1,944,382	\$ 2,173,930	-11%	\$ 2,015,051	\$ 2,106,739	-4%	

**FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS**

Revenues from governmental fund types totaled \$23.1 million.

**General Fund Budgetary Highlights**

Over the course of the year, the District revised its budget several times. With these adjustments, actual expenditures were \$1,196,366 below final budget amounts.

On the other hand, resources available were \$261,316 below the final budgeted amount.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

At the end of fiscal year 2018, the District had invested \$38.1 million in a broad range of capital assets, including land, equipment, buildings, and vehicles.

	Governmental Activities		Total Percentage Change <u>2017-2018</u>
	<u>2018</u>	<u>2017</u>	
Land	\$ 554	\$ 554	0.0%
Buildings and improvements	33,012	32,587	1.3%
Vehicles	2,487	2,438	2.0%
Equipment	2,143	2,027	5.7%
Totals at historical cost	<u>38,196</u>	<u>37,606</u>	1.6%
Total accumulated depreciation	21,074	19,919	5.8%
Net capital assets	<u>\$ 17,122</u>	<u>\$ 17,687</u>	-3.2%

## Long Term Debt

At year-end, the District had \$0.6 million in bonds, capital leases and notes outstanding as shown in Table A-5. More detailed information about the District's debt is presented in the notes to the financial statements.

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

	Governmental Activities		Total Percentage Change
	<u>2018</u>	<u>2017</u>	<u>2017-2018</u>
Loans & capital leases payable	\$ -	\$ 92	-100.0%
Bonds payable	575	1,135	-49.3%
Total bonds & notes payable	<u>\$ 575</u>	<u>\$ 1,227</u>	-53.1%

## Bond Ratings

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

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- Appraised Net Taxable Value used for the 2018-2019 budget preparation is down \$8.9 million from appraised values used for the 2017-2018 budget preparation.
- General operating fund revenue per student is projected to increase in the 2018-2019 budget from \$8,671 to \$8,702 per refined ADA. This is an increase of approximately 0.4%.
- The District's 2018-2019 refined average daily attendance is expected to be 1,874 which is down from the final 2017-2018 projected number of 1,900.

These indicators were taken into account when adopting the general fund budget for 2018-2019. Amounts appropriated in the general fund budget are \$18.19 million, a decrease from 2017-2018 revenue of \$18.46 million. Property tax revenue will decrease slightly based on a decrease in values. State funding will be down based on a slightly lower estimated refined average daily attendance. Overall revenue is projected to decrease by \$270,000. Future funding outlook is dependent on the state legislature. For the 2018-2019 school year, we will receive a revenue loss protection payment of approximately \$109,215 from the wind farm project. This additional revenue was included in budget development. The District will have one additional wind farm project which is projected to be completed in the 2019-2020 budget year.

The District has budgeted \$125,000 for facility improvements and \$100,000 for the purchase of a bus in the 2018-2019 budget. Another \$20,000 was budgeted for general capital outlay.

If the current estimates are realized, the District's general fund balance will reduce by approximately \$200,000 in 2018-2019. The current fund balance is at an amount that other capital improvements could be done during the year.

## CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

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*Basic Financial Statements*

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**VERNON INDEPENDENT SCHOOL DISTRICT**

## STATEMENT OF NET POSITION

AUGUST 31, 2018

Data Control Codes	1	Governmental Activities
<b>ASSETS:</b>		
1110	<i>Cash and Cash Equivalents</i>	\$ 10,706,776
1225	<i>Property Taxes Receivable (Net)</i>	301,450
1240	<i>Due from Other Governments</i>	930,579
1290	<i>Other Receivables (Net)</i>	85,967
1300	<i>Inventories</i>	38,036
	Capital Assets:	
1510	<i>Land</i>	553,859
1520	<i>Buildings and Improvements, Net</i>	14,985,607
1530	<i>Furniture and Equipment, Net</i>	1,582,706
1000	Total Assets	<u>29,184,980</u>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>		
	<i>Deferred Outflow Related to Pensions</i>	1,249,046
	<i>Deferred Outflow Related to OPEB</i>	107,235
1700	Total Deferred Outflows of Resources	<u>1,356,281</u>
<b>LIABILITIES:</b>		
2110	<i>Accounts Payable</i>	381,158
2165	<i>Accrued Liabilities</i>	818,200
2180	<i>Due to Other Governments</i>	242,706
	Noncurrent Liabilities:	
2501	<i>Due Within One Year</i>	575,000
2502	<i>Due in More Than One Year</i>	210,569
2540	<i>Net Pension Liability</i>	3,271,679
2545	<i>Net OPEB Liability</i>	6,917,552
2000	Total Liabilities	<u>12,416,864</u>
<b>DEFERRED INFLOWS OF RESOURCES:</b>		
	<i>Deferred Inflow Related to Pensions</i>	577,070
	<i>Deferred Inflow Related to OPEB</i>	2,893,625
2600	Total Deferred Inflows of Resources	<u>3,470,695</u>
<b>NET POSITION:</b>		
3200	Net Investment in Capital Assets	16,538,893
	Restricted For:	
3820	State and Federal Programs	169,096
3850	Debt Service	219,897
3870	Campus Activities	69,645
3900	Unrestricted	(2,343,829)
3000	Total Net Position	<u>\$ 14,653,702</u>

The accompanying notes are an integral part of this statement.

## VERNON INDEPENDENT SCHOOL DISTRICT

STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED AUGUST 31, 2018

Data Control Codes	Functions/Programs	1 Expenses	3 Program Revenues		4 Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
			Charges for Services	Governmental Activities		
	Governmental Activities:					
11	<i>Instruction</i>	\$ 7,966,238	\$ --		\$ (878,824)	\$ (8,845,062)
12	<i>Instructional Resources and Media Services</i>	138,572	--		(10,559)	(149,131)
13	<i>Curriculum and Staff Development</i>	102,888	--		16,807	(86,081)
21	<i>Instructional Leadership</i>	201,058	--		(55,390)	(256,448)
23	<i>School Leadership</i>	742,848	--		(157,182)	(900,030)
31	<i>Guidance, Counseling, &amp; Evaluation Services</i>	488,025	--		33,025	(455,000)
32	<i>Social Work Services</i>	40,794	--		28,029	(12,765)
33	<i>Health Services</i>	117,294	--		(21,633)	(138,927)
34	<i>Student Transportation</i>	493,652	--		(15,921)	(509,573)
35	<i>Food Service</i>	860,332	137,554		660,726	(62,052)
36	<i>Cocurricular/Extracurricular Activities</i>	789,269	141,749		(49,749)	(697,269)
41	<i>General Administration</i>	716,238	--		(84,236)	(800,474)
51	<i>Facilities Maintenance and Operations</i>	1,944,382	--		(70,669)	(2,015,051)
52	<i>Security and Monitoring Services</i>	25,043	--		57	(24,986)
53	<i>Data Processing Services</i>	180,717	--		(38,171)	(218,888)
61	<i>Community Services</i>	8,752	--		1,268	(7,484)
72	<i>Interest on Long-term Debt</i>	6,294	--		--	(6,294)
73	<i>Bond Issuance Costs and Fees</i>	1,950	--		--	(1,950)
93	<i>Payments Related to Shared Services Arrangements</i>	289,259	--		703	(288,556)
99	<i>Other Intergovernmental Charges</i>	203,124	--		--	(203,124)
TG	Total Governmental Activities	15,316,729	279,303		(641,719)	(15,679,145)
TP	Total Primary Government	<u>\$ 15,316,729</u>	<u>\$ 279,303</u>		<u>\$ (641,719)</u>	<u>(15,679,145)</u>
	General Revenues:					
MT	<i>Property Taxes, Levied for General Purposes</i>					9,249,744
DT	<i>Property Taxes, Levied for Debt Service</i>					625,742
IE	<i>Investment Earnings</i>					137,905
GC	<i>Grants and Contributions Not Restricted to Specific Programs</i>					8,244,813
MI	<i>Miscellaneous</i>					1,916,433
	Special and Extraordinary Items:					
S1	<i>Special Item Inflow</i>					8,754
TR	Total General Revenues					<u>20,183,391</u>
CN	Change in Net Position					<u>4,504,246</u>
NB	Net Position - Beginning					<u>22,279,342</u>
PA	Prior Period Adjustment					<u>(12,129,886)</u>
	Net Position - Beginning, as Restated					<u>10,149,456</u>
NE	Net Position - Ending					<u>\$ 14,653,702</u>

The accompanying notes are an integral part of this statement.

**VERNON INDEPENDENT SCHOOL DISTRICT**

BALANCE SHEET - GOVERNMENTAL FUNDS

AUGUST 31, 2018

Data Control Codes	10 General Fund	Other Governmental Funds	98 Total Governmental Funds	
<b>ASSETS:</b>				
1110	Cash and Cash Equivalents	\$ 10,098,807	\$ 480,488	\$ 10,579,295
1225	Taxes Receivable, Net	279,504	21,946	301,450
1240	Due from Other Governments	665,496	265,083	930,579
1260	Due from Other Funds	200,702	1,126	201,828
1290	Other Receivables	74,281	7,000	81,281
1300	Inventories	--	38,036	38,036
1000	Total Assets	<u>11,318,790</u>	<u>813,679</u>	<u>12,132,469</u>
<b>LIABILITIES:</b>				
Current Liabilities:				
2110	Accounts Payable	\$ 204,685	\$ 67,846	\$ 272,531
2150	Payroll Deductions & Withholdings	2,236	--	2,236
2160	Accrued Wages Payable	766,711	49,253	815,964
2170	Due to Other Funds	86,031	115,796	201,827
2180	Due to Other Governments	181,355	61,351	242,706
2300	Unearned Revenue	--	3,888	3,888
2000	Total Liabilities	<u>1,241,018</u>	<u>298,134</u>	<u>1,539,152</u>
<b>DEFERRED INFLOWS OF RESOURCES:</b>				
	Deferred Revenue	279,504	21,946	301,450
2600	Total Deferred Inflows of Resources	<u>279,504</u>	<u>21,946</u>	<u>301,450</u>
<b>FUND BALANCES:</b>				
Nonspendable Fund Balances:				
3410	Inventories	--	38,036	38,036
Restricted Fund Balances:				
3450	Federal/State Funds Grant Restrictions	--	171,377	171,377
3480	Retirement of Long-Term Debt	--	214,541	214,541
Committed Fund Balances:				
3510	Construction	500,000	--	500,000
3530	Capital Expenditures for Equipment	450,000	--	450,000
3545	Other Committed Fund Balance	300,000	69,645	369,645
Assigned Fund Balances:				
3590	Other Assigned Fund Balance	1,500,000	--	1,500,000
3600	Unassigned	7,048,268	--	7,048,268
3000	Total Fund Balances	<u>9,798,268</u>	<u>493,599</u>	<u>10,291,867</u>
4000	Total Liabilities, Deferred Inflow of Resources and Fund Balances	<u>\$ 11,318,790</u>	<u>\$ 813,679</u>	<u>\$ 12,132,469</u>

The accompanying notes are an integral part of this statement.

**VERNON INDEPENDENT SCHOOL DISTRICT**

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION  
AUGUST 31, 2018

Total fund balances - governmental funds balance sheet	\$ 10,291,867
Amounts reported for governmental activities in the Statement of Net Position ("SNP") are different because:	
Capital assets used in governmental activities are not reported in the funds.	17,122,174
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	301,450
The assets and liabilities of internal service funds are included in governmental activities in the SNP.	27,427
Payables for bond principal which are not due in the current period are not reported in the funds.	(574,999)
Payables for compensated absences which are not due in the current period are not reported in the funds.	(202,290)
Recognition of the District's proportionate share of the net pension liability is not reported in the funds.	(3,271,679)
Deferred Resource Inflows related to the pension plan are not reported in the funds.	(577,070)
Deferred Resource Outflows related to the pension plan are not reported in the funds.	1,249,046
Bond premiums are amortized in the SNA but not in the funds.	(8,278)
Recognition of the District's proportionate share of the net OPEB liability is not reported in the funds.	(6,917,552)
Deferred Resource Inflows related to the OPEB plan are not reported in the funds.	(2,893,625)
Deferred Resource Outflows related to the OPEB plan are not reported in the funds.	107,235
Rounding difference	<u>(4)</u>
Net position of governmental activities - Statement of Net Position	<u>\$ 14,653,702</u>

The accompanying notes are an integral part of this statement.

**VERNON INDEPENDENT SCHOOL DISTRICT**

## STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES

## IN FUND BALANCES - GOVERNMENTAL FUNDS

FOR THE YEAR ENDED AUGUST 31, 2018

Data Control Codes	10 General Fund	Other Governmental Funds	98 Total Governmental Funds
<b>REVENUES:</b>			
5700 Local and Intermediate Sources	\$ 10,991,471	\$ 1,194,433	\$ 12,185,904
5800 State Program Revenues	8,057,678	223,960	8,281,638
5900 Federal Program Revenues	815,352	1,856,185	2,671,537
5020 Total Revenues	<u>19,864,501</u>	<u>3,274,578</u>	<u>23,139,079</u>
<b>EXPENDITURES:</b>			
Current:			
0011 Instruction	10,137,331	1,018,621	11,155,952
0012 Instructional Resources and Media Services	170,135	--	170,135
0013 Curriculum and Staff Development	88,538	31,075	119,613
0021 Instructional Leadership	177,264	105,183	282,447
0023 School Leadership	1,018,904	43,730	1,062,634
0031 Guidance, Counseling, & Evaluation Services	495,327	239,796	735,123
0032 Social Work Services	1,739	65,640	67,379
0033 Health Services	174,006	105	174,111
0034 Student Transportation	567,929	--	567,929
0035 Food Service	15,737	965,000	980,737
0036 Cocurricular/Extracurricular Activities	754,521	88,304	842,825
0041 General Administration	789,077	64,434	853,511
0051 Facilities Maintenance and Operations	2,211,758	29,727	2,241,485
0052 Security and Monitoring Services	23,644	--	23,644
0053 Data Processing Services	262,880	--	262,880
0061 Community Services	--	8,263	8,263
0071 Principal on Long-term Debt	91,884	560,000	651,884
0072 Interest on Long-term Debt	2,931	22,850	25,781
0073 Bond Issuance Costs and Fees	--	1,950	1,950
0081 Capital Outlay	315,150	--	315,150
0093 Payments to Shared Service Arrangements	289,259	--	289,259
0099 Other Intergovernmental Charges	203,124	--	203,124
6030 Total Expenditures	<u>17,791,138</u>	<u>3,244,678</u>	<u>21,035,816</u>
1100 Excess (Deficiency) of Revenues Over (Under)			
1100 Expenditures	<u>2,073,363</u>	<u>29,900</u>	<u>2,103,263</u>
Other Financing Sources and (Uses):			
7912 Sale of Real or Personal Property	9,444	--	9,444
7080 Total Other Financing Sources and (Uses)	<u>9,444</u>	<u>--</u>	<u>9,444</u>
1200 Net Change in Fund Balances	2,082,807	29,900	2,112,707
0100 Fund Balances - Beginning	7,715,461	463,699	8,179,160
3000 Fund Balances - Ending	<u>\$ 9,798,268</u>	<u>\$ 493,599</u>	<u>\$ 10,291,867</u>

The accompanying notes are an integral part of this statement.

**VERNON INDEPENDENT SCHOOL DISTRICT**

*RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED AUGUST 31, 2018*

Net change in fund balances - total governmental funds	\$ 2,112,707
Amounts reported for governmental activities in the Statement of Activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	670,452
The depreciation of capital assets used in governmental activities is not reported in the funds.	(1,234,373)
Trade-in or disposal of capital assets decrease net position in the SOA but not in the funds.	(690)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	23,223
Expenses not requiring the use of current financial resources are not reported as expenditures in the funds.	2,931
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.	560,000
Repayment of loan principal is an expenditure in the funds but is not an expense in the SOA.	91,884
The net revenue (expense) of internal service funds is reported with governmental activities.	(3,476)
Compensated absences are reported as the amount earned in the SOA but as the amount paid in the funds.	11,214
Bond premiums are reported in the funds but not in the SOA.	16,556
Pension contributions made after the measurement date but in current FY were de-expended & reduced NPL.	(172,124)
OPEB contributions made after the measurement date but in current FY were de-expended & reduced NPL.	2,425,944
Rounding difference	<u>(2)</u>
Change in net position of governmental activities - Statement of Activities	<u>\$ 4,504,246</u>

The accompanying notes are an integral part of this statement.

**VERNON INDEPENDENT SCHOOL DISTRICT**

STATEMENT OF NET POSITION

INTERNAL SERVICE FUND

AUGUST 31, 2018

Data Control Codes		Nonmajor Internal Service Fund <u>Self-insured Worker's Compensation</u>
<b>ASSETS:</b>		
	Current Assets:	
1110	Cash and Cash Equivalents	\$ 127,480
	Receivables:	
1290	Other Receivables (net)	<u>4,686</u>
	Total Current Assets	<u>132,166</u>
1000	Total Assets	<u>132,166</u>
 <b>LIABILITIES:</b>		
	Current Liabilities:	
2110	Accounts Payable	\$ <u>104,739</u>
	Total Current Liabilities	<u>104,739</u>
2000	Total Liabilities	<u>104,739</u>
 <b>NET POSITION:</b>		
3900	Unrestricted	<u>30,903</u>
3000	Total Net Position	<u>\$ 27,427</u>

The accompanying notes are an integral part of this statement.

**VERNON INDEPENDENT SCHOOL DISTRICT**

STATEMENT OF REVENUES, EXPENSES, AND CHANGES  
 IN FUND NET POSITION - INTERNAL SERVICE FUND  
 FOR THE YEAR ENDED AUGUST 31, 2018

Data Control Codes		Nonmajor Internal Service Fund <hr/> Self-insured Worker's Compensation
	<b>OPERATING REVENUES:</b>	
5700	<i>Local and Intermediate Sources</i>	\$ 70,085
5020	Total Revenues	<hr/> 70,085
	<b>OPERATING EXPENSES:</b>	
6400	<i>Other Operating Costs</i>	<hr/> 73,561
6030	Total Expenses	<hr/> 73,561
1300	Change in Net Position	(3,476)
0100	Total Net Position - Beginning	<hr/> 30,903
3300	Total Net Position - Ending	<hr/> <hr/> \$ 27,427

The accompanying notes are an integral part of this statement.

**VERNON INDEPENDENT SCHOOL DISTRICT***STATEMENT OF CASH FLOWS**INTERNAL SERVICE FUND**FOR THE YEAR ENDED AUGUST 31, 2018*

	Internal Service Funds
Cash Flows from Operating Activities:	
Cash received from interest income	\$ 1,331
Cash received from other funds	68,531
Cash payment for insurance premiums and claims	<u>(25,172)</u>
Net Cash Provided (Used) by Operating Activities	<u>44,690</u>
Net Increase (Decrease) in Cash and Cash Equivalents	
Cash and Cash Equivalents at Beginning of Year	<u>82,790</u>
Cash and Cash Equivalents at End of Year	<u>\$ 127,480</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating Income (Loss)	\$ <u>(3,476)</u>
Adjustments to Reconcile Operating Income to Net Cash	
Change in Assets and Liabilities:	
(Increase) Decrease in accounts receivable	(223)
Increase (Decrease) in accounts payable	<u>48,389</u>
Total Adjustments	<u>48,166</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 44,690</u>

The accompanying notes are an integral part of this statement.

**VERNON INDEPENDENT SCHOOL DISTRICT**

STATEMENT OF FIDUCIARY NET POSITION

FIDUCIARY FUNDS

AUGUST 31, 2018

Data Control Codes	Private-purpose Trust Funds	Agency Funds  Student Activity
<b>ASSETS:</b>		
1110 <i>Cash and Cash Equivalents</i>	\$ 207,782	\$ 126,161
1000 Total Assets	<u>207,782</u>	<u>126,161</u>
<b>LIABILITIES:</b>		
Current Liabilities:		
2110 <i>Accounts Payable</i>	\$ 1,593	\$ --
2190 <i>Due to Student Groups</i>	--	126,161
2000 Total Liabilities	<u>1,593</u>	<u>126,161</u>
<b>NET POSITION:</b>		
3800 <i>Held in Trust</i>	206,189	--
3000 Total Net Position	<u>\$ 206,189</u>	<u>\$ --</u>

The accompanying notes are an integral part of this statement.

**VERNON INDEPENDENT SCHOOL DISTRICT**

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

FIDUCIARY FUNDS

FOR THE YEAR ENDED AUGUST 31, 2018

	Private- Purpose Trusts
<b>Additions:</b>	
Investment Income	\$ 2,696
Total Additions	<u>2,696</u>
<b>Deductions:</b>	
Scholarship Awards	<u>2,014</u>
Total Deductions	<u>2,014</u>
<b>Change in Net Assets</b>	682
Net Assets-Beginning of the Year	205,507
Net Assets-End of the Year	<u>\$ 206,189</u>

The accompanying notes are an integral part of this statement.

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# VERNON INDEPENDENT SCHOOL DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2018

### A. Summary of Significant Accounting Policies

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

#### 1. Reporting Entity

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

#### 2. Basis of Presentation, Basis of Accounting

##### a. Basis of Presentation

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

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

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

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

The District reports the following major governmental funds:

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

# VERNON INDEPENDENT SCHOOL DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2018

In addition, the District reports the following fund types:

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

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

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

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

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

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

b. **Measurement Focus, Basis of Accounting**

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

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

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

# VERNON INDEPENDENT SCHOOL DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2018

### 3. Financial Statement Amounts

#### a. Cash and Cash Equivalents

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

#### b. Property Taxes

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

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

Net property tax receivable is calculated as follows:

Gross property taxes receivable	\$ 554,775
Allowance for uncollectible taxes	<u>(253,325)</u>
Net property taxes receivable	<u>\$ 301,450</u>

#### c. Inventories and Prepaid Items

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

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

#### d. Capital Assets

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

# VERNON INDEPENDENT SCHOOL DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2018

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

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

e. Receivable and Payable Balances

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

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

f. Compensated Absences

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

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

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

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

g. Interfund Activity

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

# VERNON INDEPENDENT SCHOOL DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2018

### h. Use of Estimates

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

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

### i. Data Control Codes

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

### j. Deferred Outflows/Inflows of Resources

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

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

### k. Fund Balances - Governmental Funds

Fund balances of the governmental funds are classified as follows:

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

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

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

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

**Unassigned Fund Balance** - represents amounts which are unconstrained in that they may be spent for any purpose. Only the general fund reports a positive unassigned fund balance. Other governmental funds might report a negative balance in this classification because of overspending for specific purposes for which amounts had been restricted, committed or assigned.

## **VERNON INDEPENDENT SCHOOL DISTRICT**

### *NOTES TO THE FINANCIAL STATEMENTS*

*FOR THE YEAR ENDED AUGUST 31, 2018*

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

**I. Net Position Flow Assumption**

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

**m. Fund Balance Flow Assumptions**

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

**n. Negative Operating Grants and Contributions – Statement of Activities**

Expense activity is required to be recorded by districts who participate in cost-sharing pension and OPEB benefit plans with a special funding situation where non-employer contributing entities (NECE) also participate in contributions to the plans. TRS-retirement and TRS-care benefit plans are both cost-sharing plans with special funding situations. Therefore, on-behalf expense activity of the NECE must be recorded at the government-wide level of reporting on the Statement of Activities in accordance with GASB 68 and 75.

During the year under audit, the NECE expense was negative due to changes in benefits within the TRS-care plan. The accrual for the proportionate share of that expense was a negative on-behalf revenue and negative on-behalf expense. This resulted in negative revenue for operating grants and contributions on the Statement of Activities.

Following are the effects of the Statement of Activities as a result of the negative on-behalf accruals recorded.

# VERNON INDEPENDENT SCHOOL DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2018

	Operating Grants and Contributions As Reported	Negative On-Behalf Accruals	Operating Grants and Contributions (Excluding On- Behalf Accruals)
11 - Instruction	\$ (878,824)	\$ (2,091,205)	\$ 1,212,381
12 - Instructional Resources and Media Services	(10,559)	(28,146)	17,587
13 - Curriculum and Instructional Staff Development	16,807	(10,296)	27,103
21 - Instructional Leadership	(55,390)	(45,434)	(9,956)
23 - School Leadership	(157,182)	(216,916)	59,734
31 - Guidance, Counseling and Evaluation Services	33,025	(110,315)	143,340
32 - Social Work Services	28,029	-	28,029
33 - Health Services	(21,633)	(42,132)	20,499
34 - Student (Pupil) Transportation	(15,921)	(58,318)	42,397
35 - Food Service	660,726	(27,654)	688,380
36 - Extracurricular Activities	(49,749)	(63,497)	13,748
41 - General Administration	(84,236)	(101,074)	16,838
51 - Facilities Maintenance and Operations	(70,669)	(177,102)	106,433
52 - Security and Monitoring Services	57	-	57
53 - Data Processing Services	(38,171)	(56,761)	18,590
61 - Community Services	1,268	-	1,268
93 - Payments Related to Shared Services Arrangements	703	-	703
	<u>\$ (641,719)</u>	<u>\$ (3,028,850)</u>	<u>\$ 2,387,131</u>

#### 4. Pensions

The fiduciary net position of the Teacher Retirement System of Texas (TRS) has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, and information about assets, liabilities and additions to/deductions from TRS' fiduciary net position. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

#### 5. Other Post-Employment Benefits

The fiduciary net position of the Teacher Retirement System of Texas Care (TRS Care) Plan has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to other post-employment benefits, OPEB expense, and information about assets, liabilities and additions to/deductions from TRS Care's fiduciary net position. Benefit payments are recognized when due and payable in accordance with the benefit terms. There are no investments as this is a pay-as you go plan, and all cash is held in a cash account.

#### 6. New Accounting Standards Adopted

In fiscal year 2018, the District adopted a new statement of financial accounting standards issued by the Governmental Accounting Standards Board (GASB):

- Statement No. 75, Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans

The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also

# VERNON INDEPENDENT SCHOOL DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2018

improves information provided by state and local governmental employers about support for OPEB that is provided by other entities.

This statement replaces the requirements of Statements No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended, and No. 57, OPEB measurements by Agent Employers and Agent Multiple-Employer Plans, for OPEB.

The financial statements and note disclosures have been updated for the affects of the adoption of GASB Statement No. 75.

### B. Compliance and Accountability

#### 1. Finance-Related Legal and Contractual Provisions

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

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

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

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

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

### C. Cash, Cash Equivalents and Investments

#### 1. Cash and Cash Equivalents

District Policies and Legal and Contractual Provisions Governing Deposits

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

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

As of August 31, 2018, the following are the District's cash and cash equivalents with respective maturities and credit rating:

# VERNON INDEPENDENT SCHOOL DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2018

Type of Deposit	Fair Value	Percent	Maturity in Less Than 1 Year	Maturity in 1- 10 Years	Maturity in Over 10 Years	Credit Rating
Cash	\$ 2,850	0%	\$ 2,850			N/A
Money markets and FDIC Insured Accounts	9,831,851	89%	9,831,851			N/A
Investment Pools measured at amortized cost:						
Lone star	1,206,021	11%	1,206,021			AAA
Total Investment Pools:	1,206,021	11%	1,206,021			
Total Cash and Cash Equivalents	\$ 11,040,722	100%	\$ 11,040,722			

Investment Pools are measured at amortized cost and are exempt from fair value reporting.

## 2. Investments

### District Policies and Legal and Contractual Provisions Governing Investments

#### Compliance with the Public Funds Investment Act

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

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

Credit Risk To limit the risk that an issuer or other counterparty to an investment will not fulfill its obligations the District limits investments in commercial paper, corporate bonds, mutual bond funds to the top ratings issued by nationally recognized statistical rating organizations (NRSROs). As of August 31, 2018, the District's investments were rated as follows:

Lone Star Investment Pool AAA

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

# VERNON INDEPENDENT SCHOOL DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2018

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

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

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

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

As of August 31, 2018, the District had no investments subject to the fair value measurement.

### D. Capital Assets

Capital asset activity for the year ended August 31, 2018, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 553,859	\$ -	\$ -	\$ 553,859
Total capital assets not being depreciated	<u>553,859</u>	<u>-</u>	<u>-</u>	<u>553,859</u>
Capital assets being depreciated:				
Buildings and improvements	32,586,974	425,496		33,012,470
Equipment	2,026,672	143,038	26,140	2,143,570
Vehicles	2,438,235	101,918	53,527	2,486,626
Total capital assets being depreciated	<u>37,051,881</u>	<u>670,452</u>	<u>79,667</u>	<u>37,642,666</u>
Less accumulated depreciation for:				
Buildings and improvements	(17,097,432)	(929,432)		(18,026,864)
Equipment	(1,056,640)	(143,051)	25,990	(1,173,701)
Vehicles	(1,764,882)	(161,892)	52,986	(1,873,788)
Total accumulated depreciation	<u>(19,918,954)</u>	<u>(1,234,375)</u>	<u>78,976</u>	<u>(21,074,353)</u>
Total capital assets being depreciated, net	<u>17,132,927</u>	<u>(563,923)</u>	<u>691</u>	<u>16,568,313</u>
Governmental activities capital assets, net	<u>\$ 17,686,786</u>	<u>\$ (563,923)</u>	<u>\$ 691</u>	<u>\$ 17,122,172</u>

# VERNON INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED AUGUST 31, 2018

Depreciation was charged to functions as follows:

Instruction	\$ 653,639
Instructional Resources and Media Services	10,031
Curriculum and Staff Development	7,104
Instructional Leadership	16,795
School Leadership	62,881
Guidance, Counseling, & Evaluation Services	43,937
Social Work Services	4,126
Health Services	10,270
Student Transportation	113,813
Food Services	57,255
Extracurricular Activities	62,826
General Administration	50,550
Plant Maintenance and Operations	123,713
Security and Monitoring Services	1,399
Data Processing Services	15,546
Community Services	490
	<u>\$ 1,234,375</u>

## E. Interfund Balances and Activities

### 1. Due To and From Other Funds

Balances due to and due from other funds at August 31, 2018, consisted of the following:

<u>Due To Fund</u>	<u>Due From Fund</u>	<u>Amount</u>	<u>Purpose</u>
Other Funds	General Fund	\$ 86,032	Reimburse expenditures
General Fund	Other Funds	115,796	Reimburse expenditures
	Total	<u>\$ 201,828</u>	

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

### 2. Transfers To and From Other Funds

Transfers to and from other funds at August 31, 2018, consisted of the following:

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

# VERNON INDEPENDENT SCHOOL DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2018

### F. Long-Term Obligations

#### 1. Long-Term Obligation Activity

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the year ended August 31, 2018, are as follows:

	Beginning Balance	Increases	Decreases	Premium Amortization	Ending Balance
Governmental activities:					
Unlimited Tax Refunding					
Bonds - Series 2016, Tax Refunding, 2% to 3%	\$ 1,135,000	\$	\$ 560,000	\$	\$ 575,000
Notes Payable, 3.19%	91,883		91,883		-
Total	<u>1,226,883</u>	<u>-</u>	<u>651,883</u>	<u>-</u>	<u>575,000</u>
Premium - 2016 Series	24,835			(16,557)	8,278
Net Pension Liability *	3,795,927	(188,899)	335,349		3,271,679
Net OPEB Liability*	12,212,589	(5,212,334)	82,703		6,917,552
Compensated absences *	213,505		11,214		202,291
Total governmental activities	<u>\$ 17,473,739</u>	<u>\$ (5,401,233)</u>	<u>\$ 1,081,149</u>	<u>\$ (16,557)</u>	<u>\$ 10,974,800</u>

\* Other long-term liabilities

#### 2. Debt Service Requirements

Debt service requirements on long-term debt at August 31, 2018, are as follows:

Year Ending August 31,	Governmental Activities		
	Principal	Interest	Total
2019	\$ 575,000	\$ 8,625	\$ 583,625
2020	-	-	-
2021	-	-	-
2022	-	-	-
2023	-	-	-
Totals	<u>\$ 575,000</u>	<u>\$ 8,625</u>	<u>\$ 583,625</u>

#### 3. Continuing Debt Disclosure

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

### G. Risk Management

The District is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2018, the District purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

# VERNON INDEPENDENT SCHOOL DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2018

### H. Defined Benefit Pension Plan

#### 1. Plan Description

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

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

#### 2. Pension Plan Fiduciary Net Position

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

#### 3. Benefits Provided

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

Employee contribution rates are set in state statute, Texas Government Code 825.402. Senate Bill 1458 of the 83<sup>rd</sup> Texas Legislature amended Texas Government Code 825.402 for member contributions and established employee contribution rates for fiscal years 2014 thru 2017. The Texas Legislature, General Appropriations Act (GAA) established the contribution rates for fiscal years 2017 and 2018.

# VERNON INDEPENDENT SCHOOL DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2018

Contribution Rates		
	2017	2018
Member (Employees)	7.7%	7.7%
Non-Employer Contributing Entity ( State)	6.8%	6.8%
Employer (District)	6.8%	6.8%
Current fiscal year employer contributions	\$ 322,717	
Current fiscal year member contributions	\$ 899,863	
2017 Measurement year NECE on-behalf contributions	\$ 646,426	

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

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

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

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

- When employing a retiree of the Teacher Retirement System the employer shall pay both the member contribution and the state contribution as an employment after retirement surcharge.
- When a school district or charter school does not contribute to the Federal Old-Age, Survivors and Disability Insurance (OASDI) Program for certain employees, they must contribute 1.5% of the state contribution rate for certain instructional or administrative employees; and 100% of the state contribution rate for all other employees.

### 5. Actuarial Assumptions

The total pension liability in the August 31, 2017, actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	August 31, 2017
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Discount Rate	8.00%
Long-term Expected Investment Rate of Return	8.00%
Inflation	2.50%
Salary Increases Including Inflation	3.50% to 9.50% including inflation
Payroll Growth Rate	2.50%
Benefit Changes during the Year	None
Ad-hoc Post-employment Benefit Changes	None

# VERNON INDEPENDENT SCHOOL DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2018

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

### 6. Discount Rate

The discount rate used to measure the total pension liability was 8.0%. There was no change in the discount rate since the previous year. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term rate of return on pension plan investments is 8%. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2017, are summarized below:

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

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

**VERNON INDEPENDENT SCHOOL DISTRICT**

*NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED AUGUST 31, 2018*

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 2017 Net Pension Liability.

	1% Decrease in Discount Rate <u>(7.0%)</u>	Current Discount Rate <u>(8.0%)</u>	1% Increase in Discount Rate <u>(9.0%)</u>
District's proportionate share of the net pension liability:	\$5,626,404	\$3,271,679	\$1,403,413

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

At August 31, 2018, the District reported a liability of \$3,271,679 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of the collective net pension liability	\$3,271,679
State's proportionate share that is associated with District	<u>6,319,814</u>
Total	<u><u>\$9,591,493</u></u>

The net pension liability was measured as of August 31, 2017, 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, 2016, thru August 31, 2017.

At August 31, 2017, the employer's proportion of the collective net pension liability was .0102321145% which was an increase (decrease) of (.0001869282%) from its proportion measured at August 31, 2016.

Changes Since the Prior Actuarial Valuation – There were no changes to the actuarial assumptions or other inputs that affected measurement of the total pension liability since the prior measurement period.

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

For the year ended August 31, 2018, the District recognized pension expense of \$976,891 and revenue of \$482,050 for support provided by the State.



# VERNON INDEPENDENT SCHOOL DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2018

Components of the net OPEB liability of the TRS-Care plan as of August 31, 2017 are as follows:

Net OPEB Liability:

Total OPEB liability	\$	43,885,784,621
Less: plan fiduciary net position		399,535,986
Net OPEB liability	\$	<u>43,486,248,635</u>
Net position as a percentage of total OPEB Liability		0.91%

### 3. Benefits Provided

TRS-Care provides basic health insurance coverage (TRS-Care 1), at no cost to all retirees from public schools, charter schools, regional education service centers and other educational districts who are members of the TRS pension plan. Optional dependent coverage is available for an additional fee.

Eligible retirees and their dependents not enrolled in Medicare may pay premiums to participate in one of two optional insurance plans with more comprehensive benefits (TRS-Care 2 and TRS-Care 3). Eligible retirees and dependents enrolled in Medicare may elect to participate in one of the two Medicare health plans for an additional fee. To qualify for TRS-Care coverage, a retiree must have at least 10 years of service credit in the TRS pension system. The Board of Trustees is granted the authority to establish basic and optional group insurance coverage for participants as well as to amend benefit terms as needed under Chapter 1575.052. There are no automatic post-employment benefit changes; including automatic COLAs.

The premium rates for the optional health insurance are based on years of service of the member. The schedule below shows the monthly rates for the average retiree with Medicare Parts A&B coverage, with 20 to 29 years of service for the basic plan and the two optional plans.

Monthly TRS-Care Plan Premium Rates  
Effective September 1, 2016 - December 31, 2017

	TRS-Care 1 Basic Plan	TRS-Care 2 Optional Plan	TRS-Care 3 Optional Plan
Retiree*	\$ --	\$ 70	\$ 100
Retiree and Spouse	20	175	255
Retiree* and Children	41	132	182
Retiree and Family	61	237	337
Surviving Children Only	28	62	82

\* or surviving spouse

### 4. Contributions

Contribution rates for the TRS-Care plan are established in state statute by the Texas Legislature, and there is no continuing obligation to provide benefits beyond each fiscal year. The TRS-Care plan is currently funded on a pay-as-you-go basis and is subject to change based on available funding. Funding for TRS-Care is provided by retiree premium contributions and contributions from the state, active employees, and school districts based upon public school district payroll. The TRS Board of trustees does not have the authority to set or amend contribution rates.

# VERNON INDEPENDENT SCHOOL DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2018

Texas Insurance Code, section 1575.202 establishes the state's contribution rate which is 1.0% of the employee's salary. Section 1575.203 establishes the active employee's rate which is .65% of pay. Section 1575.204 establishes an employer contribution rate of not less than 0.25% or not more than 0.75% of the salary of each active employee of the public. The actual employer contribution rate is prescribed by the Legislature in the General Appropriations Act. The following table shows contributions to the TRS-Care plan by type of contributor.

	<u>Contribution Rates</u>	
	2017	2018
Member (Employees)	0.65%	0.65%
Non-Employer Contributions Entity (State)	1.00%	1.25%
Employers	0.55%	0.75%
Federal/Private Funding Remitted by Employers	1.00%	1.25%
Current fiscal year employer contributions		\$106,154
Current fiscal year member contributions		\$75,963
2017 measurement year NECE on -behalf contributions		\$108,215

In addition to the employer contributions listed above, there is an additional surcharge all TRS employers are subject to (*regardless of whether or not they participate in the TRS Care OPEB program*). When employers hire a TRS retiree, they are required to pay to TRS Care, a monthly surcharge of \$535 per retiree.

TRS-Care received supplemental appropriations from the State of Texas as the Non-Employer Contributing Entity in the amount of \$15.6 million in fiscal year 2017, and \$182.6 million in fiscal year 2018.

### 5. Actuarial Assumptions

The total OPEB liability in the August 31, 2017 actuarial valuation was determined using the following actuarial assumptions: Actuarial Assumptions can be found in the 2017 TRS CAFR, Note 10, page 82.

The following assumptions and other inputs used for members of TRS-Care are identical to the assumptions used in the August 31, 2017 TRS pension actuarial valuation.

Rates of Mortality	General Inflation
Rates of Retirement	Wage Inflation
Rates of Termination	Expected Payroll Growth
Rates of Disability Incidence	

#### Additional actuarial methods and assumptions:

Valuation Date	August 31, 2017
Actuarial Cost Method	Individual Entry Age Normal
Inflation	2.5%
Discount Rate*	3.42%
Aging Factors	Based on plan specific experience
Expense	Third-party administrative expenses related to the delivery of health care benefits are included in the age-adjusted claim costs
Payroll Growth Rate	2.5%
Projected Salary Increases**	3.5% to 9.5%
Healthcare Trend Rates***	4.5% to 12.0%
Election Rates	Normal Retirement: 70% participation prior to age 65 and 75% participation after age 65
Ad hoc post-employment benefit changes	None

# VERNON INDEPENDENT SCHOOL DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2018

\*Source: Fixed income municipal bonds with 20 years to maturity that include only federal tax-exempt municipal bonds as reported in Fidelity Index's "20-year Municipal GO AA Index" as of August 31, 2017.

\*\*Includes inflation at 2.5%

\*\*\*Initial trend rates are 7.00% for non-Medicare retirees: 10.00% for Medicare retirees and 12.00% for prescriptions for all retirees. Initial trend rates decrease to an ultimate trend rate of 4.5% over a period of 10 years.

Other Information: There was a significant plan change adopted in fiscal year ending August 31, 2017. Effective January 1, 2018, only one health plan option will be offered and all retirees will be required to contribute monthly premiums for coverage. Assumption changes made for the August 31, 2017 valuation include a change to the assumption regarding the phase-out of the Medicare Part D subsidies and a change to the discount rate from 2.98% as of August 31, 2016, to 3.42% as of August 31, 2017.

### 6. Discount Rate

A single discount rate of 3.42% was used to measure the total OPEB liability. There was a change of .44% in the discount rate since the previous year. Because the plan is essentially a "pay-as-you-go" plan, the single discount rate is equal to the prevailing municipal bond rate. The projection of cash flows used to determine the discount rate assumed that contributions from active 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 OPEB plan's fiduciary net position was projected to *not be able* to make all future benefit payments of current plan members. Therefore, the municipal bond rate was applied to all periods of projected benefit payments to determine the total OPEB liability.

### 7. Discount Rate Sensitivity Analysis

The following schedule shows the impact of the Net OPEB Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (3.42%) in measuring the Net OPEB Liability.

	1% Decrease in Discount Rate (2.42%)	Current Single Discount Rate (3.42%)	1% Increase in Discount Rate (4.42%)
District's proportionate share of net OPEB liability	\$ 8,164,429	\$ 6,917,552	\$ 5,915,345

### 8. Healthcare Cost Trend Rates Sensitivity Analysis

The following presents the net OPEB liability of the plan using the assumed health healthcare cost trend rate, as well as what the net OPEB liability would be if it were calculated using a trend rate that is one-percentage point lower or one-percentage point higher than the assumed healthcare cost trend rate.

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
District's proportionate share of net OPEB liability	\$ 2,602,708	\$ 3,126,001	\$ 3,812,628

# VERNON INDEPENDENT SCHOOL DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2018

### 9. OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs

At August 31, 2018, the District reported a liability of \$6,917,552 for its proportionate share of the TRS's Net OPEB Liability. This liability reflects a reduction for State OPEB support provided to the District. The amount recognized by the District as its proportionate share of the net OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the District were as follows:

District's proportionate share of the collective net OPEB liability	\$	6,917,552
State's proportionate share that is associated with the District		<u>9,051,432</u>
Total	\$	<u><u>15,968,984</u></u>

The Net OPEB Liability was measured as of August 31, 2017, and the Total OPEB Liability used to calculate the Net OPEB Liability was determined by an actuarial valuation as of that date. The employer's proportion of the Net OPEB Liability was based on the employer's contributions to the OPEB plan relative to the contributions of all employers to the plan for the period September 1, 2016 thru August 31, 2017.

At August 31, 2017, the employer's proportion of the collective Net OPEB Liability was 0.0159074480% which was the same proportion measured as of August 31, 2016.

### 10. Changes Since the Prior Actuarial Valuation

The following were changes to the actuarial assumptions of other inputs that affected the measurement of the total OPEB liability since the prior measurement period:

- a. Significant plan changes were adopted during the fiscal ending August 31, 2017. Effective January 1, 2018, only one health plan option will exist (instead of three), and all retirees will be required to contribute monthly premiums for coverage. The health plan changes triggered changes to several of the assumptions, including participation rates, retirement rates, and spousal participation rates.
- b. The August 31, 2016 valuation had assumed that the savings related to the Medicare Part D reimbursements would phase in by 2020. This assumption was removed for the August 31, 2017 valuation. Although there is uncertainty regarding these federal subsidies, the new assumption better reflects the current substantive plan. This change was unrelated to the plan amendment and its impact was included as an assumption change in the reconciliation of the total OPEB liability. This change significantly lowered the OPEB liability.
- c. The discount rate changed from 2.98% as of August 31, 2016, to 3.42% as of August 31, 2017. This change lowered total OPEB liability.

The Affordable Care Act includes a 40% excise tax on high-cost health plans known as the "Cadillac Tax". In this valuation, the impact of this tax has been calculated as a portion of the trend assumption. Assumptions and methods used to determine the impact of the Cadillac Tax include:

- a. 2018 thresholds of \$850/\$2,292 were indexed annually by 2.5%
- b. Premium data submitted was not adjusted for permissible exclusions to the Cadillac Tax.
- c. There were no special adjustments to the dollar limit other than those permissible for non-Medicare retirees over 55.

Results indicate that the value of the excise tax would be reasonably represented by the 25 basis-point addition to the long-term trend rate assumption.

Future actuarial measurements may differ significantly from the current measurements due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements; and changes in plan provision of applicable law.

# VERNON INDEPENDENT SCHOOL DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2018

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

For the year ended August 31, 2018, the District recognized OPEB expense of \$(5,348,640) and revenue of \$(3,028,850) for support provided by the State.

At August 31, 2018, the District reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to other post-employment benefits from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual actuarial experiences	\$ --	\$ 144,409
Changes in actuarial assumptions		2,749,216
Differences between projected and actual investment earnings	1,051	--
Changes in proportion and differences between the employer's contributions and the proportionate share of contributions	30	--
Total as of August 31, 2017 measurement date	\$ 1,081	\$ 2,893,625
Contributions paid to TRS subsequent to the measurement date	106,154	--
Total as of fiscal year-end	\$ 107,235	\$ 2,893,625

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

<u>Fiscal year ended August 31,</u>	<u>OPEB Expense Amount</u>
2019	\$ (381,674)
2020	\$ (381,674)
2021	\$ (381,674)
2022	\$ (381,674)
2023	\$ (381,936)
Thereafter	\$ (983,912)

### J. Commitments and Contingencies

#### 1. Contingencies

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

#### 2. Litigation

No reportable litigation was pending against the District at August 31, 2018.

# VERNON INDEPENDENT SCHOOL DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2018

### K. Shared Services Arrangements

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

<u>Member Districts</u>	<u>Expenditures</u>
Vernon ISD	\$ 353,280
Northside ISD	20,781
Harrold ISD	23,750
Total	<u>\$ 397,811</u>

### L. Committed and Assigned Fund Balance

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

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

### M. Major Taxpayer

The District receives a substantial portion of its tax revenue from a local utility company. For the year ended August 31, 2018, the revenues from this taxpayer were \$1,777,934. There were no receivables from the taxpayer as of August 31, 2018.

### N. Deferred Compensation Plan

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

### O. Self-insured Worker's Compensation Plan

The District maintains a self-insured worker's compensation plan. The District has third-party insurance coverage for aggregate claims in excess of \$5 million and for specific occurrences exceeding \$750,000. Pool participants are responsible for amounts up to this single limit; however, the District loss fund maximum was \$91,811 for the plan year ended August 31, 2018.

## VERNON INDEPENDENT SCHOOL DISTRICT

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2018

The estimated claims benefit obligation for the self-insured worker's compensation plan of \$104,739 at August 31, 2018, includes requirements of GASB Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicated that it is probable that a liability has been incurred as of the date of the financial statements, and the amount of the loss can be reasonably estimated. Because actual claim liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing the liability does not result necessarily in an exact amount. The liability recorded was the undiscounted estimate of the third-party administrator at August 31, 2018. The District's ultimate liability is the sum of the District's loss fund as determined by the third-party administrator.

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

#### P. Tax Abatements

The District's Board of Trustees approved a value limitation (Agreement) dated September 21, 2015, with Electra Wind, LLC (Company), for a limitation on appraised value of property for school district maintenance and operations taxes pursuant to Chapter 313 of the Texas Tax Code, as amended, i.e. the Texas Economic Development Act. The Company qualified for a tax limitation agreement under Texas Tax Code 313.024 (b)(5), as a renewable energy electric generation project.

Value limitation agreements are a part of a state program, originally created in 2001, which allows school districts to limit the taxable value of an approved project for Maintenance and Operations (M&O) for a period of years specified in statute. The project under the 313 Agreement must be consistent with the State's goals to "encourage large scale capital investments in this state." Chapter 313 of the Tax Code grants eligibility to companies engaged in manufacturing, research and development, renewable electric energy production, clean coal projects, nuclear power generation and data centers.

In order to qualify for a value limitation, the Company is required to meet a series of capital investment, job creation and wage requirements specified by state law. At the time of the application's approval, the agreement was found to have done so by both the District's Board of Trustees and the Texas Comptroller's Office, which recommended the approval of the project. The application, the agreements and state reporting requirement documentation can be viewed at the Texas Comptroller's website: <https://www.comptroller.texas.gov/economy/local/ch313/agreement-docs.php>. The agreement and all supporting documents were assigned Texas Comptroller Application No. 1066.

After approval, the applicant company must maintain a viable presence in the District for the entire period of the value limitation plus a period of years thereafter. In addition, there are specific reporting requirements, which are monitored on an annual and biennial basis in order to ensure relevant job, wage and operational requirements are met.

In the event that an entity terminates the Agreement without consent of the District, or in the event that the Company or its successor-in-interest fails to comply in any material respect with the terms of the Agreement or to meet any material obligation under the Agreement, then the District shall be entitled to the recapture of all ad valorem tax revenue lost as a result of the Agreement, together with the payment of penalty and interest on that recaptured ad valorem tax revenue.

According to the Agreement, the Company was to invest capital of \$189,536,749 in renewable electric energy production (a wind farm) on a long-term basis for a valuation limitation of \$30,000,000. The District's tax abatements expire December 31, 2026. For the year ended August 31, 2018, which is year one of the Agreement, the property value was \$160,303,000 without considering the limit and \$30,000,000 with the limit. When calculated with the maintenance and operating tax rate of \$1.04 per \$100, the District forgoes collecting \$1,353,331 in tax revenue; however, that will be offset by the increase in state funding through the Foundation School Program's funding formula and payments in lieu of taxes. For the current year, the following tables summarizes the impact for 2018.

**VERNON INDEPENDENT SCHOOL DISTRICT**

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED AUGUST 31, 2018

Electra Wind LLC (Application #1066)  
2018

Project Value	Project's Value Limitation	Amount of Applicant's M&O Taxes Paid	Amount of Applicant's M&O Taxes Reduced	Company Revenue Loss Payment to School District	Company Supplement Payment to School District	Net Benefit (Loss) to the School District
\$ 160,303,000	\$ 30,000,000	\$ 313,820	\$ 1,353,331	\$ 1,353,331	\$ -	\$ 1,667,151

Q. Prior Period Adjustment

During fiscal year 2018, the District adopted GASB Statement No. 75 for Accounting and Financial Reporting for Postemployment Benefits Other than Pensions. With GASB 75, The District must assume their proportionate share of the Net OPEB liability of the Teacher Retirement System of Texas. Adoption of GASB 75 requires a prior period adjustment to report the effect of GASB 75 retroactively. The prior period adjustment totaled \$(12,129,886) which resulted in a restated beginning net position balance of \$10,149,455.

P. Federal Revenue

Federal revenue consisted of the following:

School Health and Related Services (SHARS)	\$ 815,352
Other Federal Programs (Per SEFA)	1,856,185
Federal Revenue per Exhibit C-2	<u>\$ 2,671,537</u>

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## *Required Supplementary Information*

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

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**VERNON INDEPENDENT SCHOOL DISTRICT**

GENERAL FUND  
 BUDGETARY COMPARISON SCHEDULE  
 FOR THE YEAR ENDED AUGUST 31, 2018

**EXHIBIT G-1**  
 Page 1 of 2

Data Control Codes	Budgeted Amounts			Variance with Final Budget Positive (Negative)	
	1	2	3		
	Original	Final	Actual		
<b>REVENUES:</b>					
5700	Local and Intermediate Sources	\$ 10,076,500	\$ 11,007,135	\$ 10,991,471	\$ (15,664)
5800	State Program Revenues	7,811,293	7,781,050	8,057,678	276,628
5900	Federal Program Revenues	710,000	815,000	815,352	352
5020	Total Revenues	18,597,793	19,603,185	19,864,501	261,316
<b>EXPENDITURES:</b>					
Current:					
Instruction & Instructional Related Services:					
0011	Instruction	10,667,200	10,667,200	10,137,331	529,869
0012	Instructional Resources and Media Services	183,588	183,588	170,135	13,453
0013	Curriculum and Staff Development	94,050	94,050	88,538	5,512
	Total Instruction & Instr. Related Services	10,944,838	10,944,838	10,396,004	548,834
Instructional and School Leadership:					
0021	Instructional Leadership	211,389	211,389	177,264	34,125
0023	School Leadership	1,019,187	1,019,187	1,018,904	283
	Total Instructional & School Leadership	1,230,576	1,230,576	1,196,168	34,408
Support Services - Student (Pupil):					
0031	Guidance, Counseling and Evaluation Services	497,766	502,766	495,327	7,439
0032	Social Work Services	2,500	2,500	1,739	761
0033	Health Services	190,043	190,043	174,006	16,037
0034	Student (Pupil) Transportation	649,761	649,761	567,929	81,832
0035	Food Services	21,600	21,600	15,737	5,863
0036	Cocurricular/Extracurricular Activities	764,865	801,669	754,521	47,148
	Total Support Services - Student (Pupil)	2,126,535	2,168,339	2,009,259	159,080
Administrative Support Services:					
0041	General Administration	740,519	815,519	789,077	26,442
	Total Administrative Support Services	740,519	815,519	789,077	26,442
Support Services - Nonstudent Based:					
0051	Plant Maintenance and Operations	2,527,115	2,560,115	2,211,758	348,357
0052	Security and Monitoring Services	19,550	41,550	23,644	17,906
0053	Data Processing Services	287,169	287,169	262,880	24,289
	Total Support Services - Nonstudent Based	2,833,834	2,888,834	2,498,282	390,552
Debt Service:					
0071	Principal on Long-Term Debt	93,272	93,272	91,884	1,388
0072	Interest on Long-Term Debt	2,976	2,976	2,931	45
	Total Debt Service	96,248	96,248	94,815	1,433
Capital Outlay:					
0081	Capital Outlay	--	315,150	315,150	--
	Total Capital Outlay	--	315,150	315,150	--
Intergovernmental Charges:					
0093	Payments to Fiscal Agent/Member Dist.-SSA	320,000	320,000	289,259	30,741
0099	Other Intergovernmental Charges	208,000	208,000	203,124	4,876
	Total Intergovernmental Charges	528,000	528,000	492,383	35,617
6030	Total Expenditures	18,500,550	18,987,504	17,791,138	1,196,366

**VERNON INDEPENDENT SCHOOL DISTRICT**

GENERAL FUND  
 BUDGETARY COMPARISON SCHEDULE  
 FOR THE YEAR ENDED AUGUST 31, 2018

**EXHIBIT G-1**  
 Page 2 of 2

Data Control Codes	1	2	3	Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual	
	Original	Final		
1100 Excess (Deficiency) of Revenues Over (Under)				
1100 Expenditures	<u>97,243</u>	<u>615,681</u>	<u>2,073,363</u>	<u>1,457,682</u>
Other Financing Sources (Uses):				
7912 Sale of Real or Personal Property	500	9,500	9,444	(56)
7915 Transfers In	224,100	224,100	--	(224,100)
8911 Transfers Out	<u>(280,000)</u>	<u>(293,500)</u>	<u>--</u>	<u>293,500</u>
7080 Total Other Financing Sources and (Uses)	<u>(55,400)</u>	<u>(59,900)</u>	<u>9,444</u>	<u>69,344</u>
1200 Net Change in Fund Balance	41,843	555,781	2,082,807	1,527,026
0100 Fund Balance - Beginning	<u>7,715,461</u>	<u>7,715,461</u>	<u>7,715,461</u>	--
3000 Fund Balance - Ending	<u>\$ 7,757,304</u>	<u>\$ 8,271,242</u>	<u>\$ 9,798,268</u>	<u>\$ 1,527,026</u>

**VERNON INDEPENDENT SCHOOL DISTRICT**

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

	Fiscal Year			
	2017	2016	2015	2014
District's proportion of the net pension liability (asset)	0.0102321145%	0.0100451863%	0.0109532000%	0.0064826000%
District's proportionate share of the net pension liability (asset)	\$ 3,271,679	\$ 3,795,927	\$ 3,871,810	\$ 1,731,592
State's proportionate share of the net pension liability (asset) associated with the District	6,319,814	7,805,718	7,636,626	6,849,722
<b>Total</b>	<b>\$ 9,591,493</b>	<b>\$ 11,601,645</b>	<b>\$ 11,508,436</b>	<b>\$ 8,581,314</b>
District's covered-employee payroll	\$ 11,941,156	\$ 11,601,645	\$ 11,508,436	\$ 11,758,938
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	27.40%	32.72%	33.64%	14.73%
Plan fiduciary net position as a percentage of the total pension liability	82.17%	78.00%	78.43%	83.25%

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

**VERNON INDEPENDENT SCHOOL DISTRICT**  
*SCHEDULE OF DISTRICT CONTRIBUTIONS*  
*TEACHER RETIREMENT SYSTEM OF TEXAS*  
*LAST TEN FISCAL YEARS \**

	Fiscal Year			
	2018	2017	2016	2015
Contractually required contribution	\$ 322,717	\$ 335,349	\$ 319,161	\$ 317,244
Contributions in relation to the contractually required contribution	(322,717)	(335,349)	(319,161)	(317,244)
Contribution deficiency (excess)	\$ --	\$ --	\$ --	\$ --
District's covered-employee payroll	\$ 11,686,411	\$ 11,941,156	\$ 11,848,651	\$ 11,710,319
Contributions as a percentage of covered-employee payroll	2.76%	2.81%	2.69%	2.71%

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

**VERNON INDEPENDENT SCHOOL DISTRICT**

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

	Measurement Year Ended August 31, <u>2017</u>
District's proportion of the collective net OPEB liability	0.0159074480%
District's proportionate share of the collective net OPEB liability	\$ 6,917,552
State proportionate share of the collective net OPEB liability associated with the District	\$ 9,051,432
Total	<u>\$ 15,968,984</u>
District's covered-employee payroll	\$ 11,941,156
District's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	57.93%
Plan fiduciary net position as a percentage of the total OPEB liability	91.00%

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

**VERNON INDEPENDENT SCHOOL DISTRICT**

*SCHEDULE OF THE DISTRICT'S OPEB CONTRIBUTIONS*

*TEACHER RETIREMENT SYSTEM OF TEXAS*

*LAST TEN FISCAL YEARS \**

	Fiscal Year Ended August 31, <u>2018</u>
Statutorily or contractually required District contribution	\$ 106,154
Contributions recognized by OPEB in relation to statutorily or contractually required contribution	<u>(106,154)</u>
Contribution deficiency (excess)	<u>\$ --</u>
District's covered-employee payroll	\$ 11,686,411
Contributions as a percentage of covered-employee payroll	0.91%

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

# VERNON INDEPENDENT SCHOOL DISTRICT

## NOTES TO REQUIRED SUPPLEMENTARY INFORMATION FOR THE YEAR ENDED AUGUST 31, 2018

### Budget

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

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

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

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

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

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

### Defined Benefit Pension Plan

#### *Changes of benefit terms*

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

#### *Changes of assumptions*

There were no changes of assumptions or other inputs that affected measurement of the total pension liability during the measurement period.

### TRS OPEB 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 were changes to the actuarial assumptions or other inputs that affected measurement of the total OPEB liability since the prior measurement period:

- a. Significant plan changes were adopted during the fiscal year ending August 31, 2017. Effective January 1, 2018, only one health plan option will exist (instead of three), and all retirees will be required to contribute monthly premiums for coverage. The health plan changes triggered changes to several of the assumptions, including participation rates, retirement rates, and spousal participation rates.
- b. The August 31, 2016 valuation had assumed that the savings related to the Medicare Part D reimburse-

ments would phase out by 2022. This assumption was removed for the August 31, 2017 valuation. Although there is uncertainty regarding these federal subsidies, the new assumption better reflects the current substantive plan. This change was unrelated to the plan amendment and its impact was included as an assumption change in the reconciliation of the total OPEB liability. This change significantly lowered the OPEB liability.

- c. The discount rate changed from 2.98% as of August 31, 2016, to 3.42% as of August 31, 2017. This change lowered total OPEB liability.

The Affordable Care Act includes a 40% excise tax on high-cost health plans known as the "Cadillac Tax." In this valuation the impact of this tax has been calculated as a portion of the trend assumption. Assumptions and methods used to determine the impact of the Cadillac Tax include:

- a. 2018 thresholds of \$850/\$2,292 were indexed annually by 2.50%.
- b. Premium data submitted was not adjusted for permissible exclusions to the Cadillac Tax.
- c. There were no special adjustments to the dollar limit other than those permissible for non-Medicare retirees over 55.

Results indicate that the value of the excise tax would be reasonably represented by a 25 basis-point addition to the long-term trend rate assumption.

Future actuarial measurements may differ significantly from the current measurements due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements; and changes in plan provision or applicable law.

## *Other Supplementary Information*

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

**VERNON INDEPENDENT SCHOOL DISTRICT**

*SCHEDULE OF DELINQUENT TAXES RECEIVABLE  
FOR THE YEAR ENDED AUGUST 31, 2018*

Year Ended August 31	Tax Rates		3 Assessed/Appraised Value For School Tax Purposes
	1 Maintenance	2 Debt Service	
2009 and Prior Years	\$ Various	\$ Various	\$ Various
2010	1.04	.11	744,072,740
2011	1.04	.11	721,199,630
2012	1.04	.11	735,819,860
2013	1.04	.11	771,219,240
2014	1.04	.11	796,614,560
2015	1.04	.10	828,445,230
2016	1.04	.09	895,572,150
2017	1.04	.07	881,154,520
2018 (School Year Under Audit)	1.04	.06	898,219,800

1000 Totals

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

10 Beginning Balance 9/1/17	20 Current Year's Total Levy	31 Maintenance Collections	32 Debt Service Collections	40 Entire Year's Adjustments	50 Ending Balance 8/31/18
\$ 141,314	\$ --	\$ 4,402	\$ 39	\$ (3,869)	\$ 133,004
18,562	--	820	87	(218)	17,437
25,256	--	1,058	112	(188)	23,898
22,471	--	1,109	117	(70)	21,175
19,874	--	1,546	149	(70)	18,109
27,002	--	2,213	214	(109)	24,466
46,229	--	5,185	508	(570)	39,966
80,410	--	18,750	1,638	(1,096)	58,926
147,070	--	61,251	4,803	(712)	80,304
--	9,802,504	9,035,384	606,640	(22,991)	137,489
<u>\$ 528,188</u>	<u>\$ 9,802,504</u>	<u>\$ 9,131,718</u>	<u>\$ 614,307</u>	<u>\$ (29,893)</u>	<u>\$ 554,774</u>
\$ --	\$ --	\$ --	\$ --	\$ --	\$ --

**VERNON INDEPENDENT SCHOOL DISTRICT**

**EXHIBIT J-2**

*NATIONAL SCHOOL BREAKFAST AND LUNCH PROGRAM  
BUDGETARY COMPARISON SCHEDULE  
FOR THE YEAR ENDED AUGUST 31, 2018*

Data Control Codes	1	2	3
	Budget	Actual	Variance Positive (Negative)
<b>REVENUES:</b>			
5700 <i>Local and Intermediate Sources</i>	\$ 198,759	\$ 137,559	\$ (61,200)
5800 <i>State Program Revenues</i>	11,905	12,277	372
5900 <i>Federal Program Revenues</i>	893,000	833,445	(59,555)
5020 <b>Total Revenues</b>	<u>1,103,664</u>	<u>983,281</u>	<u>(120,383)</u>
<b>EXPENDITURES:</b>			
Current:			
Support Services - Student (Pupil):			
0035 <i>Food Services</i>	1,127,664	965,000	162,664
<b>Total Support Services - Student (Pupil)</b>	<u>1,127,664</u>	<u>965,000</u>	<u>162,664</u>
Administrative Support Services:			
0041 <i>General Administration</i>	1,000	1,000	--
<b>Total Administrative Support Services</b>	<u>1,000</u>	<u>1,000</u>	<u>--</u>
Support Services - Nonstudent Based:			
0051 <i>Plant Maintenance and Operations</i>	15,000	15,000	--
<b>Total Support Services - Nonstudent Based</b>	<u>15,000</u>	<u>15,000</u>	<u>--</u>
6030 <b>Total Expenditures</b>	<u>1,143,664</u>	<u>981,000</u>	<u>162,664</u>
1100 Excess (Deficiency) of Revenues Over (Under)			
1100 Expenditures	(40,000)	2,281	42,281
Other Financing Sources (Uses):			
7915 <i>Transfers In</i>	40,000	--	(40,000)
7080 <b>Total Other Financing Sources and (Uses)</b>	<u>40,000</u>	<u>--</u>	<u>(40,000)</u>
1200 <b>Net Change in Fund Balance</b>	<u>--</u>	<u>2,281</u>	<u>2,281</u>
0100 <b>Fund Balance - Beginning</b>	<u>--</u>	<u>--</u>	<u>--</u>
3000 <b>Fund Balance - Ending</b>	<u>\$ --</u>	<u>\$ 2,281</u>	<u>\$ 2,281</u>

**VERNON INDEPENDENT SCHOOL DISTRICT**

**EXHIBIT J-3**

DEBT SERVICE FUND  
 BUDGETARY COMPARISON SCHEDULE  
 FOR THE YEAR ENDED AUGUST 31, 2018

Data Control Codes	1	2	3
	Budget	Actual	Variance Positive (Negative)
<b>REVENUES:</b>			
5700 <i>Local and Intermediate Sources</i>	\$ 623,615	\$ 623,382	\$ (233)
5800 <i>State Program Revenues</i>	30,000	30,760	760
5020 <i>Total Revenues</i>	<u>653,615</u>	<u>654,142</u>	<u>527</u>
<b>EXPENDITURES:</b>			
Debt Service:			
0071 <i>Principal on Long-Term Debt</i>	560,000	560,000	--
0072 <i>Interest on Long-Term Debt</i>	22,850	22,850	--
0073 <i>Bond Issuance Costs and Fees</i>	3,000	1,950	1,050
<i>Total Debt Service</i>	<u>585,850</u>	<u>584,800</u>	<u>1,050</u>
6030 <i>Total Expenditures</i>	<u>585,850</u>	<u>584,800</u>	<u>1,050</u>
1100 <i>Excess (Deficiency) of Revenues Over (Under)</i>			
1100 <i>Expenditures</i>	<u>67,765</u>	<u>69,342</u>	<u>1,577</u>
1200 <i>Net Change in Fund Balance</i>	67,765	69,342	1,577
0100 <i>Fund Balance - Beginning</i>	145,199	145,199	--
3000 <i>Fund Balance - Ending</i>	<u>\$ 212,964</u>	<u>\$ 214,541</u>	<u>\$ 1,577</u>

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

Independent Auditor's Report on Internal Control over Financial Reporting and  
On Compliance and Other Matters Based on an Audit of Financial Statements  
Performed In Accordance With Government Auditing Standards

Board of Trustees  
Vernon Independent School District  
Vernon, Texas

Members of the Board of Trustees:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Vernon Independent School District, as of and for the year ended August 31, 2018, and the related notes to the financial statements, which collectively comprise Vernon Independent School District's basic financial statements, and have issued our report thereon dated December 1, 2018.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Vernon Independent School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Vernon Independent School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Vernon Independent School District's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Vernon Independent School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Moore, Truelove, Pharis, Meyers & Marsh, CPAs, PLLC  
Vernon, TX  
December 1, 2018



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

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

Board of Trustees  
Vernon Independent School District  
Vernon, Texas

Members of the Board of Trustees:

**Report on Compliance for Each Major Federal Program**

We have audited the Vernon Independent School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Vernon Independent School District's major federal programs for the year ended August 31, 2018. Vernon Independent School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

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

***Auditor's Responsibility***

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

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

***Opinion on Each Major Federal Program***

In our opinion, the Vernon Independent School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2018.

**Report on Internal Control Over Compliance**

Management of the Vernon Independent School District is responsible for establishing and maintaining

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

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

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

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



Moore, Truelove, Pharis, Meyers & Marsh, CPAs, PLLC  
Vernon, TX  
December 1, 2018

**VERNON INDEPENDENT SCHOOL DISTRICT**  
*SCHEDULE OF FINDINGS AND QUESTIONED COSTS*  
*FOR THE YEAR ENDED AUGUST 31, 2018*

A. Summary of Auditor's Results

1. Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

One or more material weaknesses identified?  Yes  No

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

Noncompliance material to financial statements noted?  Yes  No

2. Federal Awards

Internal control over major programs:

One or more material weaknesses identified?  Yes  No

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

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

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

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.010	ESEA Title I Part A

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

Auditee qualified as low-risk auditee?  Yes  No

B. Financial Statement Findings

Finding 2018-001 - Bilingual

Criteria of Special Requirement

Bilingual programs financed under the Foundation School Program Act must be used in the program areas prescribed by law except that 52% of the allocation can be used for direct costs of the program.

Condition and Effect

The District did not expend the required 52% of the allocation in the Bilingual mandated program as

**VERNON INDEPENDENT SCHOOL DISTRICT**  
*SCHEDULE OF FINDINGS AND QUESTIONED COSTS*  
*FOR THE YEAR ENDED AUGUST 31, 2018*

required by law. Cost recorded in program intent Code 99, Undistributed, was not allocated to this mandated program area.

**Cause**

The District did not have a procedure to ensure that the required expenditures, coding or allocations of costs to program intent Code 25, Bilingual Education, were sufficient as required by law.

**Effect**

Unspent mandated funds of \$8,639, before any allocation of program intent code 99, may be due to state.

**Recommendation**

The District will institute procedures to ensure that allocations for Bilingual programs are being spent for this specific purpose and are to be properly coded to this program.

**Views of Responsible Officials and Planned Corrective Actions**

Refer to the Corrective Action Plan prepared by District management.

**Finding 2018-002 - Career and Technology**

**Criteria of Special Requirement**

Career and Technology programs financed under the Foundation School Program Act must be used in the program areas prescribed by law except that 58% of the allocation can be used for direct costs of the program.

**Condition and Effect**

The District did not expend the required 58% of the allocation in the Career and Technology mandated program as required by law. Cost recorded in program intent Code 99, Undistributed, was not allocated to this mandated program area.

**Cause**

The District did not have a procedure to ensure that the required expenditures, coding or allocations of costs to program intent Code 22, Career and Technology, were sufficient as required by law.

**Effect**

Unspent mandated funds of \$30,104, before any allocation of program intent code 99, may be due to state.

**Recommendation**

The District will institute procedures to ensure that allocations for Career and Technology programs are being spent for this specific purpose and are to be properly coded to this program.

**Views of Responsible Officials and Planned Corrective Actions**

Refer to the Corrective Action Plan prepared by District management.

**C. Federal Award Findings and Questioned Costs**

NONE

**VERNON INDEPENDENT SCHOOL DISTRICT**  
*SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS*  
*FOR THE YEAR ENDED AUGUST 31, 2018*

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

## **VERNON INDEPENDENT SCHOOL DISTRICT**

### *CORRECTIVE ACTION PLAN*

*FOR THE YEAR ENDED AUGUST 31, 2018*

#### Finding 2018-001 Bilingual

The District will institute procedures to ensure that allocations from special mandated program areas are being spent for these specific purposes and are properly coded to these programs. However, this District notes that the State allows the District to be in compliance as long as the average spending over three years is in compliance. The District believes they are in compliance with this rule.

#### Finding 2018-002 Career and Technology

The District will institute procedures to ensure that allocations from special mandated program areas are being spent for these specific purposes and are properly coded to these programs. However, this District notes that the State allows the District to be in compliance as long as the average spending over three years is in compliance. The District believes they are in compliance with this rule.

**VERNON INDEPENDENT SCHOOL DISTRICT**

**EXHIBIT K-1**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED AUGUST 31, 2018

(1)	(2)	(2A)	(3)
Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass- Through Entity Identifying Number	Passed Through to Subrecipients  Federal Expenditures
<b>CHILD NUTRITION CLUSTER:</b>			
<u>U. S. Department of Agriculture</u>			
Passed Through State Department of Education:			
School Breakfast Program	10.553	244-903	\$ 253,824
National School Lunch Program	10.555	244-903	513,133
National School Lunch Program (Non-cash)	10.555	244-903	66,489
Total CFDA Number 10.555			<u>579,622</u>
Total Passed Through State Department of Education			<u>833,446</u>
Total U. S. Department of Agriculture			<u>833,446</u>
Total Child Nutrition Cluster			<u>833,446</u>
<b>MEDICAID CLUSTER:</b>			
<u>U. S. Department of Health and Human Services</u>			
Passed Through State Department of Education:			
<i>Medicaid Administrative Claiming Program - MAC</i>	93.778	244-903	105
Total U. S. Department of Health and Human Services			<u>105</u>
Total Medicaid Cluster			<u>105</u>
<b>SPECIAL EDUCATION (IDEA) CLUSTER:</b>			
<u>U. S. Department of Education</u>			
Passed Through State Department of Education:			
<i>SSA IDEA-B Formula</i>	84.027	186600012449036600	360,906
<i>SSA IDEA-B Discretionary</i>	84.027	18660077244903	5,000
Total CFDA Number 84.027			<u>365,906</u>
<i>IDEA-B Discretionary</i>	84.027A	186600022449036674	101,769
<i>SSA IDEA-B Preschool</i>	84.173A	186610012449036610	3,980
Total Passed Through State Department of Education			<u>471,655</u>
Total U. S. Department of Education			<u>471,655</u>
Total Special Education (IDEA) Cluster			<u>471,655</u>
<b>OTHER PROGRAMS:</b>			
<u>U. S. Department of Education</u>			
Passed Through State Department of Education:			
<i>ESEA Title I Part A - Improving Basic Programs</i>	84.010a	18610101244903	419,792
<i>ESEA Title I Part A - Improving Basic Programs</i>	84.010a	19610101244903	22,929
Total CFDA Number 84.010a			<u>442,721</u>
<i>Career and Technical - Basic Grant</i>	84.048	18420006244903	23,456
<i>ESEA, Title VI, Part B, Subpart 2 - Rural and Low Income School</i>	84.358	17696001244903	890
<i>ESEA, Title VI, Part B, Subpart 2 - Rural and Low Income School</i>	84.358	18696001244903	34,851
Total CFDA Number 84.358			<u>35,741</u>
<i>ESEA Title II Part A - Teacher &amp; Principal Training &amp; Recruiting</i>	84.367a	18694501244903	35,525
<i>ESEA Title II Part A - Teacher &amp; Principal Training &amp; Recruiting</i>	84.367a	19694501244903	2,281
Total CFDA Number 84.367a			<u>37,806</u>
<i>Summer School LEP</i>	84.369A	69551102	1,110
<i>Title IV, Part A, Subpart 1</i>	84.424A	18680101244903	10,146
Total Passed Through State Department of Education			<u>550,980</u>
Total U. S. Department of Education			<u>\$ 550,980</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<u><u>\$ 1,856,186</u></u>

The accompanying notes are an integral part of this schedule.

## **VERNON INDEPENDENT SCHOOL DISTRICT**

### *NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED AUGUST 31, 2018*

#### Basis of Presentation

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

#### Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. These expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule, if any, represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

Vernon Independent School District has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

**VERNON INDEPENDENT SCHOOL DISTRICT**

SCHEDULE OF REQUIRED RESPONSES TO SELECTED SCHOOL FIRST INDICATORS  
AS OF AUGUST 31, 2018

Data Control Codes		Responses
SF2	Were there any disclosures in the Annual Financial Report and/or other sources of information concerning nonpayment of any terms of any debt agreement at fiscal year end?	No
SF4	Was there an unmodified opinion in the Annual Financial Report?	Yes
SF5	Did the Annual Financial Report disclose any instances of material weaknesses in internal controls over financial reporting and compliance for local, state or federal funds?	No
SF6	Was there any disclosure in the Annual Financial Report of material noncompliance for grants, contracts and laws related to local, state or federal funds?	No
SF7	Did the school district make timely payments to the Teachers Retirement System (TRS), Texas Workforce Commission (TWC), Internal Revenue Service (IRS), and other governmental agencies?	Yes
SF8	Did the school district <u>not</u> receive an adjusted repayment schedule for more than one fiscal year for an over allocation of Foundation School Program (FSP) funds as a result of a financial hardship?	Yes
SF10	What was the total accumulated accretion on capital appreciation bonds (CABs) included in government-wide financial statements at fiscal year-end?	\$ --
SF11	Net Pension Assets (object 1920) at fiscal year-end.	\$ --
SF12	Net Pension Liabilities (object 2540) at fiscal year-end.	\$ 3,271,679
SF13	Pension Expense (object 6147) at fiscal year-end.	\$

In correspondence to all school administrators dated November 1, 2017, the TEA's Director of Financial Compliance stated "For 2017, and until further notice, no data should be entered in the field for data feed Schedule L-1 question SF13. If the AFR and data feed has been submitted no additional steps need to be taken."

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