

VERIBEST INDEPENDENT SCHOOL DISTRICT
Annual Financial Report
Year Ended August 31, 2016

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CERTIFICATE OF THE BOARD

VERIBEST INDEPENDENT SCHOOL DISTRICT
Name of School District

TOM GREEN
County

226-908
County -
District
Number

We, the undersigned, certify that the attached annual financial report of the above-named School District was reviewed and

X approved ___ disapproved for the year ended August 31, 2016, at a meeting of the Board of Trustees of such School District
(Check One)

on the _____ day of _____, 20__.

Krista Wilde
Signature of Board Secretary

Dalena Freeman
Signature of Board President

If the Board of Trustees disapproved the annual financial report, the reason(s) for disapproving it is (are) (attach list as necessary):

FINANCIAL SECTION



A Limited Liability Partnership

Michael E. Oliphant, CPA
Calvin Featherston, CPA
Wayne Barr, CPA
Cathryn A. Pitcock, CPA

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Texas Society of CPAs

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Veribest Independent School District
P.O. Box 490
Veribest, TX 76886-0490

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 Veribest Independent School District as of and for the year ended August 31, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis, budgetary comparison information, and net pension liability and contributions information for the Teacher Retirement System of Texas on pages 4 through 8, 38, and 39 through 40, respectively, 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 Veribest Independent School District’s basic financial statements. The other supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The other supplementary information is the responsibility of management and was derived from and relates 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 information is 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 November 7, 2016, on our consideration of the Veribest Independent School District’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Veribest Independent School District’s internal control over financial reporting and compliance.

Eckert & Company, LLP

November 7, 2016

VERIBEST INDEPENDENT SCHOOL DISTRICT
P.O. Box 490
Veribest, Texas 76886

Bobby Fryar - Superintendent
Denise Dusek - Business Manager
Tara Molina – District Secretary
325-655-4912



James Meredith – Secondary Principal
Kalum McKay – Elementary Principal
Leah Zaruba – Campus Secretary
325-655-2851

MANAGEMENT’S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Veribest Independent School District's financial performance provides an overview of the District's financial activities for the year ended August 31, 2016. It should be read in conjunction with the District's basic financial statements and independent auditor's report.

Financial Highlights

The District's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources at the end of the current year by \$4,348,541 (net position). Of this amount, \$2,188,177 (unrestricted) may be used to meet the District's ongoing obligations.

The District's total net position increased by \$114,893 or 3%. This amount consists of a \$92,009 increase attributable to current year operations and a \$22,884 increase attributable to prior period adjustments described in Note IV., J. to the financial statements. The District's statement of activities shows total revenues of \$3,400,576 and total expenses of \$3,308,567.

The total fund balance of the General Fund is \$2,311,096 which is an increase of \$130,638 or 6% compared to the prior year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements consist of government-wide financial statements, fund financial statements, and notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-Wide Financial Statements - The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the District's assets/deferred outflows of resources and liabilities/deferred inflows of resources, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the District's net position changed during the current year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future years.

MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

Overview of the Financial Statements - Continued

The governmental activities of the District include all activities related to public elementary and secondary education within the jurisdiction of the District.

The District has no component units.

Fund Financial Statements - A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental funds and fiduciary funds.

Governmental Funds - Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the current year.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and the Debt Service Fund, both of which are considered to be major funds. Data from other governmental funds are combined into a single, aggregated presentation.

The District adopts an annual appropriated budget for its General Fund, Food Service Special Revenue Fund, and Debt Service Fund. A budgetary comparison statement has been provided for each of these funds to demonstrate compliance with the budget for each fund.

Fiduciary Funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs.

Notes to the Financial Statements - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

MANAGEMENT’S DISCUSSION AND ANALYSIS - Continued

Government-Wide Financial Analysis

Net Position - A summary of the District’s net position is presented below:

NET POSITION

	<u>Governmental Activities</u>	
	<u>August 31,</u>	
	<u>2016</u>	<u>2015</u>
Current and Other Assets	\$ 3,059,815	\$ 2,628,569
Capital Assets	<u>3,636,942</u>	<u>3,168,048</u>
Total Assets	<u>\$ 6,696,757</u>	<u>\$ 5,796,617</u>
Deferred Outflows of Resources	<u>\$ 330,496</u>	<u>\$ 79,973</u>
Long-Term Liabilities Outstanding	\$ 2,319,841	\$ 1,476,160
Other Liabilities	<u>325,298</u>	<u>127,634</u>
Total Liabilities	<u>\$ 2,645,139</u>	<u>\$ 1,603,794</u>
Deferred Inflows of Resources	<u>\$ 33,573</u>	<u>\$ 39,148</u>
Net Position		
Net Investment in Capital Assets	\$ 1,785,656	\$ 1,838,114
Restricted	374,708	281,018
Unrestricted	<u>2,188,177</u>	<u>2,114,516</u>
Total Net Position	<u>\$ 4,348,541</u>	<u>\$ 4,233,648</u>

A large portion of the District's net position (\$1,785,656) reflects the District's investment in capital assets, less any related debt used to acquire those assets that is still outstanding. These capital assets are used to provide public elementary and secondary education within the jurisdiction of the District; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. An additional portion of the District’s net position (\$374,708) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (\$2,188,177) may be used to meet the District’s ongoing obligations.

MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

Government-Wide Financial Analysis - Continued

Governmental Activities - Governmental activities increased the District's net position by \$92,009 and \$277,101 for the fiscal years ended August 31, 2016 and 2015, respectively. Key elements of these increases are as follows:

CHANGES IN NET POSITION

	<u>Governmental Activities</u>	
	<u>Year Ended August 31,</u>	
	<u>2016</u>	<u>2015</u>
Revenues		
Program Revenues		
Charges for Services	\$ 96,050	\$ 83,456
Operating Grants and Contributions	363,946	289,768
Capital Grants and Contributions	20,086	0
General Revenues		
Maintenance and Operations Taxes	1,414,663	1,247,547
Debt Service Taxes	145,093	127,954
State Aid - Formula Grants	1,340,183	1,513,475
Investment Earnings	7,540	2,213
Other	13,015	26,422
	<u>\$ 3,400,576</u>	<u>\$ 3,290,835</u>
Expenses		
Instruction and Instructional-Related Services	\$ 1,567,863	\$ 1,314,086
Instructional and School Leadership	213,230	202,254
Support Services - Student (Pupil)	540,570	532,878
Administrative Support Services	309,859	278,786
Support Services - Nonstudent Based	435,242	450,360
Debt Service	46,845	34,413
Intergovernmental Charges	194,958	200,957
	<u>\$ 3,308,567</u>	<u>\$ 3,013,734</u>
Change in Net Position	\$ 92,009	\$ 277,101
Net Position - Beginning	4,233,648	4,002,994
Prior Period Adjustments	<u>22,884</u>	<u>(46,447)</u>
Net Position - Ending	<u>\$ 4,348,541</u>	<u>\$ 4,233,648</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

Financial Analysis of the District's Funds

The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds - The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. The unassigned fund balance may serve as a useful measure of the District's net resources available for spending at the end of the current year.

The District's governmental funds reported combined ending fund balances of \$2,689,984, an increase of \$225,198 or 9% in comparison with the prior year. These fund balances are reported in various governmental funds as follows:

General Fund \$2,311,096. Of this balance \$1,270,000 is committed for future construction.

Special Revenue Funds \$6,764. This balance is committed for use by the Campus Activity Fund of the District.

Debt Service Fund \$372,124. This balance is restricted for payment of long-term debt principal and interest.

General Fund Budget

The original budget for the General Fund was \$2,688,619 and the final amended budget was \$3,476,178 which represents a \$787,559 increase in appropriations. Variances between the original budget and the final amended budget are reflected in Exhibit E-1 in the required supplementary information section of the audit report.

The District has adopted a budget for the General Fund in the amount of \$2,821,859 for the fiscal year 2017, which is a decrease of \$654,319 from the fiscal year 2016.

Capital Assets and Debt

Capital Assets - Financial statement footnote III., D. discloses the District's capital asset activity for the year ended August 31, 2016.

Long-Term Debt - Financial statement footnote III., H. discloses the District's debt activity for the year ended August 31, 2016.

Requests for Information

The financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to: Bobby Fryar, Superintendent, Veribest Independent School District, P.O. Box 490, Veribest, TX 76886-0490.

Basic Financial Statements

VERIBEST INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
AUGUST 31, 2016

EXHIBIT A-1

Data Control Codes	Primary Government
	Governmental Activities
ASSETS	
1110 Cash and Cash Equivalents	\$ 2,838,976
1220 Property Taxes - Delinquent	54,383
1230 Allowance for Uncollectible Taxes	(8,150)
1240 Due from Other Governments	168,721
1267 Due from Fiduciary Funds	4,676
1290 Other Receivables, Net	1,209
Capital Assets:	
1510 Land	662,859
1520 Buildings, Net	2,655,783
1530 Furniture and Equipment, Net	318,300
1000 Total Assets	6,696,757
DEFERRED OUTFLOWS OF RESOURCES	
1701 Deferred Loss on Refunding	17,120
1705 Deferred Outflow Related to TRS	313,376
1700 Total Deferred Outflows of Resources	330,496
LIABILITIES	
2110 Accounts Payable	14,332
2140 Interest Payable	1,700
2160 Accrued Wages Payable	99,956
2177 Due to Fiduciary Funds	101
2200 Accrued Expenses	1,968
2300 Unearned Revenue	207,241
Noncurrent Liabilities	
2501 Due Within One Year	65,000
2502 Due in More Than One Year	1,803,403
2540 Net Pension Liability (District's Share)	451,438
2000 Total Liabilities	2,645,139
DEFERRED INFLOWS OF RESOURCES	
2605 Deferred Inflow Related to TRS	33,573
2600 Total Deferred Inflows of Resources	33,573
NET POSITION	
3200 Net Investment in Capital Assets	1,785,656
3850 Restricted for Debt Service	374,708
3900 Unrestricted	2,188,177
3000 Total Net Position	\$ 4,348,541

The notes to the financial statements are an integral part of this statement.

VERIBEST INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2016

Data Control Codes	1	Program Revenues	
		3	4
	Expenses	Charges for Services	Operating Grants and Contributions
Primary Government:			
GOVERNMENTAL ACTIVITIES:			
11 Instruction	\$ 1,520,158	\$ 2,630	\$ 198,426
12 Instructional Resources and Media Services	26,489	-	1,840
13 Curriculum and Instructional Staff Development	21,216	-	-
23 School Leadership	213,230	-	17,123
31 Guidance, Counseling, and Evaluation Services	54,364	-	5,261
33 Health Services	34,533	-	3,261
34 Student (Pupil) Transportation	95,748	-	2,150
35 Food Services	210,320	55,485	94,775
36 Extracurricular Activities	145,605	17,724	2,206
41 General Administration	309,859	-	19,305
51 Facilities Maintenance and Operations	339,796	20,211	15,716
52 Security and Monitoring Services	-	-	-
53 Data Processing Services	95,446	-	3,886
72 Debt Service - Interest on Long-Term Debt	32,767	-	-
73 Debt Service - Bond Issuance Cost and Fees	14,078	-	-
93 Payments Related to Shared Services Arrangements	181,978	-	-
99 Other Intergovernmental Charges	12,980	-	-
[TP] TOTAL PRIMARY GOVERNMENT:	\$ 3,308,567	\$ 96,050	\$ 363,946

Data Control Codes	General Revenues:
	Taxes:
MT	Property Taxes, Levied for General Purposes
DT	Property Taxes, Levied for Debt Service
SF	State Aid - Formula Grants
IE	Investment Earnings
MI	Miscellaneous Local and Intermediate Revenue
TR	Total General Revenues
CN	Change in Net Position
NB	Net Position - Beginning
PA	Prior Period Adjustment
NE	Net Position - Ending

The notes to the financial statements are an integral part of this statement.

		Net (Expense) Revenue and Changes in Net Position	
		5	6
		Capital Grants and Contributions	Governmental Activities
\$	-	\$	(1,319,102)
	-		(24,649)
	-		(21,216)
	-		(196,107)
	-		(49,103)
	-		(31,272)
	-		(93,598)
	-		(60,060)
	-		(125,675)
	-		(290,554)
	-		(303,869)
	20,086		20,086
	-		(91,560)
	-		(32,767)
	-		(14,078)
	-		(181,978)
	-		(12,980)
\$	<u>20,086</u>		<u>(2,828,485)</u>

1,414,663
145,093
1,340,183
7,540
13,015
<u>2,920,494</u>
92,009
4,233,648
22,884
<u>\$ 4,348,541</u>

VERIBEST INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
AUGUST 31, 2016

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Funds	Total Governmental Funds
ASSETS				
1110 Cash and Cash Equivalents	\$ 2,459,768	\$ 371,909	\$ 7,299	\$ 2,838,976
1220 Property Taxes - Delinquent	49,479	4,904	-	54,383
1230 Allowance for Uncollectible Taxes	(7,531)	(619)	-	(8,150)
1240 Due from Other Governments	155,016	215	13,490	168,721
1260 Due from Other Funds	4,676	-	1,200	5,876
1290 Other Receivables	1,098	-	111	1,209
1000 Total Assets	<u>\$ 2,662,506</u>	<u>\$ 376,409</u>	<u>\$ 22,100</u>	<u>\$ 3,061,015</u>
LIABILITIES				
2110 Accounts Payable	\$ 8,149	\$ -	\$ 6,183	\$ 14,332
2160 Accrued Wages Payable	92,271	-	7,685	99,956
2170 Due to Other Funds	101	-	1,200	1,301
2200 Accrued Expenditures	1,700	-	268	1,968
2300 Unearned Revenue	207,241	-	-	207,241
2000 Total Liabilities	<u>309,462</u>	<u>-</u>	<u>15,336</u>	<u>324,798</u>
DEFERRED INFLOWS OF RESOURCES				
2601 Unavailable Revenue - Property Taxes	41,948	4,285	-	46,233
2600 Total Deferred Inflows of Resources	<u>41,948</u>	<u>4,285</u>	<u>-</u>	<u>46,233</u>
FUND BALANCES				
Restricted Fund Balance:				
3480 Retirement of Long-Term Debt	-	372,124	-	372,124
Committed Fund Balance:				
3510 Construction	1,270,000	-	-	1,270,000
3545 Other Committed Fund Balance	-	-	6,764	6,764
3600 Unassigned Fund Balance	1,041,096	-	-	1,041,096
3000 Total Fund Balances	<u>2,311,096</u>	<u>372,124</u>	<u>6,764</u>	<u>2,689,984</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 2,662,506</u>	<u>\$ 376,409</u>	<u>\$ 22,100</u>	<u>\$ 3,061,015</u>

The notes to the financial statements are an integral part of this statement.

VERIBEST INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION
AUGUST 31, 2016

Total Fund Balances - Governmental Funds	\$	2,689,984
1 Capital assets used in governmental activities are not financial resources and, therefore, are not reported in governmental funds. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase (decrease) net position.		1,730,956
2 Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including capital outlays and debt principal payments is to increase (decrease) net position.		782,797
3 Depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.		(253,903)
4 Included in the items related to debt is the recognition of the District's proportionate share of the net pension liability required by GASB 68, a Deferred Resource Inflow related to TRS, and a Deferred Resource Outflow related to TRS. The net effect of these adjustments is to increase (decrease) net position.		(66,231)
5 Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to the accrual basis of accounting. These include recognizing unavailable revenue from property taxes as revenue, eliminating interfund transactions, reclassifying the proceeds of a tax maintenance note as an increase in debt payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net position.		(535,062)
19 Net Position of Governmental Activities	\$	4,348,541

The notes to the financial statements are an integral part of this statement.

VERIBEST INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2016

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Funds	Total Governmental Funds
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 1,461,334	\$ 146,287	\$ 63,389	\$ 1,671,010
5800 State Program Revenues	1,402,463	44,123	54,726	1,501,312
5900 Federal Program Revenues	-	-	153,077	153,077
5020 Total Revenues	<u>2,863,797</u>	<u>190,410</u>	<u>271,192</u>	<u>3,325,399</u>
EXPENDITURES:				
Current:				
0011 Instruction	1,192,331	-	103,061	1,295,392
0012 Instructional Resources and Media Services	23,232	-	-	23,232
0013 Curriculum and Instructional Staff Development	21,216	-	-	21,216
0023 School Leadership	176,874	-	3,229	180,103
0031 Guidance, Counseling, and Evaluation Services	45,682	-	-	45,682
0033 Health Services	29,270	-	-	29,270
0034 Student (Pupil) Transportation	178,166	-	-	178,166
0035 Food Services	4,612	-	191,620	196,232
0036 Extracurricular Activities	130,871	-	-	130,871
0041 General Administration	269,634	-	-	269,634
0051 Facilities Maintenance and Operations	319,211	-	-	319,211
0052 Security and Monitoring Services	-	-	20,086	20,086
0053 Data Processing Services	86,470	-	-	86,470
Debt Service:				
0071 Principal on Long-Term Debt	-	60,000	-	60,000
0072 Interest on Long-Term Debt	-	37,200	-	37,200
0073 Bond Issuance Cost and Fees	13,728	350	-	14,078
Capital Outlay:				
0081 Facilities Acquisition and Construction	607,012	-	-	607,012
Intergovernmental:				
0093 Payments to Fiscal Agent/Member Districts of SSA	181,978	-	-	181,978
0099 Other Intergovernmental Charges	12,980	-	-	12,980
6030 Total Expenditures	<u>3,293,267</u>	<u>97,550</u>	<u>317,996</u>	<u>3,708,813</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(429,470)</u>	<u>92,860</u>	<u>(46,804)</u>	<u>(383,414)</u>
OTHER FINANCING SOURCES (USES):				
7914 Non-Current Loans	585,728	-	-	585,728
7915 Transfers In	-	-	48,504	48,504
8911 Transfers Out (Use)	(48,504)	-	-	(48,504)
7080 Total Other Financing Sources (Uses)	<u>537,224</u>	<u>-</u>	<u>48,504</u>	<u>585,728</u>
1200 Net Change in Fund Balances	107,754	92,860	1,700	202,314
0100 Fund Balance - September 1 (Beginning)	2,180,458	279,264	5,064	2,464,786
1300 Increase (Decrease) in Fund Balance	22,884	-	-	22,884
3000 Fund Balance - August 31 (Ending)	<u>\$ 2,311,096</u>	<u>\$ 372,124</u>	<u>\$ 6,764</u>	<u>\$ 2,689,984</u>

The notes to the financial statements are an integral part of this statement.

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

Total Net Change in Fund Balances - Governmental Funds	\$	202,314
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing capital outlays and debt principal payments is to increase (decrease) net position.		782,797
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net position.		(253,903)
Current year changes required by GASB 68 include amortization of deferred resource inflows and outflows related to the District's pension liability. The District's current pension expense was also adjusted for items related to the difference between the District's fiscal year end and the measurement date used for pension liability reporting by the plan. The amount of state contributions made on behalf of plan participants reported in the Statement of Activities included additional expense not reported in the governmental funds statements. The impact of all of these is to increase (decrease) net position.		(66,231)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to the accrual basis of accounting. These include recognizing unavailable revenue from property taxes as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating interfund transactions, reclassifying the proceeds of a tax maintenance note, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net position.		(572,968)
Change in Net Position of Governmental Activities	\$	92,009

The notes to the financial statements are an integral part of this statement.

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

	Agency Fund
<hr/>	
ASSETS	
Cash and Cash Equivalents	\$ 23,046
Due from Other Funds	101
	<hr/>
Total Assets	\$ 23,147
	<hr/> <hr/>
LIABILITIES	
Due to Other Funds	\$ 4,676
Due to Student Groups	18,471
	<hr/>
Total Liabilities	\$ 23,147
	<hr/> <hr/>

The notes to the financial statements are an integral part of this statement.

VERIBEST INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements
August 31, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Veribest Independent School District is a public educational agency operating under the applicable laws and regulations of the State of Texas. The District prepares its basic financial statements in conformity with accounting principles generally accepted in the United States of America applicable to state and local governments. Additionally, the District complies with the requirements of the Texas Education Agency's *Financial Accountability System Resource Guide* (the *Resource Guide*) and the requirements of contracts and grants of agencies from which it receives funds.

A. Reporting Entity

The District is governed by the Board of Trustees, a seven-member group, which is elected by the public and has governance responsibilities, including fiscal accountability, over all activities related to public elementary and secondary education within the jurisdiction of the Veribest Independent School District (the primary government). There are no component units included within the reporting entity.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities include programs supported primarily by taxes, State foundation funds, grants, and other intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges for services - payments from parties that purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment of the District and (2) grants and contributions - payments from organizations outside the District that are restricted to meeting the operational or capital requirements of a particular function or segment of the District. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

All interfund transactions between governmental funds are eliminated in the government-wide financial statements. Interfund activities between governmental funds and fiduciary funds remain as due to/due froms on the government-wide statement of net position.

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

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities, and fund balances are included in the balance sheet. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days

VERIBEST INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, revenues received from the state, and interest associated with the current fiscal period are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant. Accordingly, when such funds are received they are recorded as unearned revenue until related and authorized expenditures have been made.

The fiduciary funds are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the period in which they are incurred and become measurable.

The government reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Debt Service Fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

Additionally, the government reports the following fund type:

Agency Funds account for the activities of funds which are the property of student groups.

D. Interfund Receivables and Payables

Activity between individual funds may result in amounts owed between funds which are classified as Due To and From Other Funds. Other than amounts due to or from fiduciary funds these balances are eliminated in the statement of net position.

E. Receivables and Payables

Receivables are stated at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

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

There are no significant receivables which are not scheduled for collection within one year.

VERIBEST INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

F. Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant, and equipment is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and Improvements	10-50
Vehicles	5-10
Furniture and Equipment	5-10

G. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method, which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, the face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

H. Pensions

In accordance with accounting guidance prescribed by GASB Statement No. 68, 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's fiduciary net position. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

I. Compensated Absences

On retirement or death of certain employees, the District pays any accrued vacation leave and sick leave in a lump sum cash payment to such employee or his/her estate.

A liability for these amounts is reported in governmental funds only if they are payable as a result of employee retirements.

VERIBEST INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

J. Net Position on the Statement of Net Position

Net position on the statement of net position includes the following:

Net Investment in Capital Assets - This component of net position represents the difference between capital assets net of accumulated depreciation and the outstanding balance of debt, excluding any unspent debt proceeds, which is directly attributable to the acquisition, construction, or improvement of those assets.

Restricted for Debt Service - This component of net position represents the difference between assets and liabilities of the Debt Service Fund that consists of assets with constraints placed on their use by creditors.

Unrestricted - This is the difference between assets/deferred outflows of resources and liabilities/deferred inflows of resources and liabilities that is not reported as Net Investment in Capital Assets or Restricted for Debt Service.

K. Fund Balances

In the fund financial statements, governmental funds report the following classifications of fund balance:

Restricted - Amounts that can be spent only for specific purposes because usage restraints have been imposed by external sources such as creditors (through a debt covenant), grantors, contributors, or laws or regulations of other governments.

Committed - Amounts that can be used only for specific purposes determined by a formal action of the Board of Trustees, the District's highest level of decision-making authority. Commitments may be modified or rescinded only through formal action by the Board of Trustees.

Unassigned - Amounts that have not been assigned to other funds or restricted, committed, or assigned to a specific purpose within the General Fund.

The details of the fund balances are included in the governmental funds balance sheet.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balances are 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, as needed, unless the Board of Trustees has provided otherwise in its commitment or assignment actions.

In the General Fund, the District strives to maintain a yearly fund balance in the general operating fund in which the total fund balance is three months operating expenditures and the unassigned fund balance is three months operating expense of the total operating expenditures.

L. Property Tax Revenues

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

VERIBEST INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

L. Property Tax Revenues - Continued

The District recognizes as tax revenues those taxes that are measurable and available. Measurable means the amount can be determined, and available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The District considers property taxes as available if they are collected within the current period.

Taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectibles are based upon historical experience. 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.

M. Interfund Transfers

Permanent relocations of resources between funds of the reporting entity are classified as interfund transfers. For purposes of the statement of activities, all interfund transfers between individual governmental funds have been eliminated.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budget

Formal budgetary accounting is employed for all required governmental fund types and is presented on the modified accrual basis of accounting consistent with generally accepted accounting principles.

The official school budget is prepared for adoption for required governmental fund types prior to August 20 of the preceding fiscal year for the subsequent fiscal year beginning September 1. The budget is formally adopted by the Board of Trustees at a public meeting held at least ten days after public notice has been given.

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund, the Debt Service Fund, and the Food Service Special Revenue Fund. The remaining Special Revenue Funds adopt project-length budgets which do not correspond to the District's fiscal year. Each annual budget is presented on the modified accrual basis of accounting which is consistent with generally accepted accounting principles. The budget was amended throughout the year by the Board of Trustees. Such amendments are before the fact and are reflected in the official minutes of the Board.

B. Excess Expenditures Over Appropriations

Expenditures exceeded appropriations in one function as shown on Exhibit E-1.

VERIBEST INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2016

III. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS - Continued

A. Deposits and Investments

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 the District to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit. Statutes authorize the District to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, and (10) common trust funds. The Act also requires the District 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.

In compliance with the Public Funds Investment Act, the District has adopted a deposit and investment policy.

Custodial Credit Risk - Deposits: In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits and investments in certificates of deposit may not be returned to it. The District's policy does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits and investments, other than the following: The State of Texas requires that a financial institution secure deposits and investments made by state and local governments by pledging securities in excess of the highest cash balance of the government. The District is not exposed to custodial credit risk for its deposits since they are covered by depository insurance and pledged securities held by a third party in the District's name.

Concentration of Credit Risk: The investment policy of the District contains no limitations on the amount that can be invested in any one issuer. Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent five percent or more of the total entity investments represent a concentration risk. The District is not exposed to this risk as described in the preceding paragraph.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At August 31, 2016, the District was not significantly exposed to credit risk.

Interest Rate Risk: Not applicable

Foreign Currency Risk: Not applicable

VERIBEST INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2016

III. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS - Continued

B. Due from Other Governments

The District participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. In addition, the District receives entitlements from the State through the School Foundation and Per Capita Programs. Amounts due from other governments are summarized as follows:

	State Entitlements	Federal Grants	Other	Total
General Fund	\$ 152,915	\$ 0	\$ 2,101	\$ 155,016
Special Revenue Funds	0	6,697	6,793	13,490
Debt Service Fund	0	0	215	215
Totals	\$ 152,915	\$ 6,697	\$ 8,894	\$ 168,721

C. Interfund Balances and Transfers

1. The following is a summary of amounts due from and due to other funds:

	Due From	Due To	Purpose
General Fund			
Fiduciary Funds	\$ 4,676	\$ 101	Operating Advance
Special Revenue Fund			
Special Revenue Fund	1,200	1,200	Reallocate Grant Proceeds
Fiduciary Funds			
General Fund	101	4,676	Operating Advance
Totals	\$ 5,977	\$ 5,977	

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

2. Interfund transfers consist of the following:

Transfers From	Transfers To	Amount	Purpose
General Fund	Nonmajor Governmental Funds	\$ 48,504	To Cover Fund Deficit

VERIBEST INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2016

III. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS - Continued

D. Capital Assets

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

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Prior Period Adjustment</u>	<u>Ending Balance</u>
Capital Assets					
Land	\$ 78,015	\$ 584,844	\$ 0	\$ 0	\$ 662,859
Buildings and Improvements	5,139,978	29,868	0	0	5,169,846
Furniture and Equipment	811,718	108,085	0	0	919,803
Total Capital Assets	\$ 6,029,711	\$ 722,797	\$ 0	\$ 0	\$ 6,752,508
Less Accumulated Depreciation					
Buildings and Improvements	\$ (2,330,831)	\$ (183,232)	\$ 0	\$ 0	\$ (2,514,063)
Furniture and Equipment	(530,832)	(70,671)	0	0	(601,503)
Total Accumulated Depreciation	\$ (2,861,663)	\$ (253,903)	\$ 0	\$ 0	\$ (3,115,566)
Governmental Activities Capital Assets, Net	\$ 3,168,048	\$ 468,894	\$ 0	\$ 0	\$ 3,636,942

Depreciation expense was charged to governmental activities functions as follows:

Instruction	\$ 145,937
Instructional Resources and Media Services	2,222
School Leadership	22,100
Guidance, Counseling, and Evaluation Services	5,816
Health Services	3,567
Student (Pupil) Transportation	4,241
Food Services	9,645
Extracurricular Activities	8,229
General Administration	26,837
Facilities Maintenance and Operations	19,539
Data Processing Services	5,770
Total	\$ 253,903

E. Deferred Outflows and Inflows of Resources

The financial statements report separate sections for deferred outflows and inflows of resources. Deferred outflows represent an acquisition of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until that time. Deferred inflows represent an acquisition of fund balance that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

VERIBEST INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2016

III. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS - Continued

E. Deferred Outflows and Inflows of Resources - Continued

The District has the following items that qualify for reporting in these categories:

Deferred Outflows (Statement of Net Position)

Deferred loss on bond refunding, which is amortized over the life of the refunding bonds.

District's proportionate share of Teacher Retirement System of Texas (TRS) deferred outflows as detailed in financial statement footnote IV., A.

Deferred Inflows (Statement of Net Position)

District's proportionate share of Teacher Retirement System of Texas (TRS) deferred inflows as detailed in financial statement footnote IV., A.

Deferred Inflows (Balance Sheet - Governmental Funds)

Unavailable revenue - property taxes.

F. Unearned Revenue

Unearned revenue at year end consisted of the following:

	General Fund
Foundation School Program Act Entitlements	\$ 207,241

G. Commitments Under Noncapitalized Leases

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

Year Ending August 31,	
2017	\$ 9,706
2018	5,786
2019	5,786
2020	5,303
Total Minimum Rentals	\$ 26,581

Rental expenditures during the year ended August 31, 2016, were \$18,791.

VERIBEST INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2016

III. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS - Continued

H. Long-Term Debt

The following is a summary of changes in long-term debt for the year ended August 31, 2016:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Maintenance Tax Note	\$ 0	\$ 585,728	\$ 0	\$ 585,728	\$ 0
Unlimited Tax Refunding Bonds	1,260,000	0	60,000	1,200,000	65,000
Bond Premium	88,187	0	5,512	82,675	0
Totals	<u>\$ 1,348,187</u>	<u>\$ 585,728</u>	<u>\$ 65,512</u>	<u>\$ 1,868,403</u>	<u>\$ 65,000</u>

The District's outstanding maintenance tax note payable is as follows:

Veribest Independent School District Maintenance Tax Note, Series 2016. Issued for the purpose of providing funds to purchase a tract of land as authorized by Texas Education Code, Section 45.108, in the original amount of \$585,728. Due in variable installments through February 17, 2036, with an interest rate of 3.92% . \$ 585,728

The District's outstanding bond issue is as follows:

Veribest Independent School District Unlimited Tax Refunding Bonds, Series 2012. Issued to refund the remaining portion of the Unlimited Tax School Building Bonds, Series 2001 and to pay the costs associated with the sale and issuance of the bonds. Issued in the original amount of 1,455,000. Due in variable installments through August 15, 2031, with interest rates of 2% to 3%. \$ 1,200,000

The combined annual debt service requirements are as follows:

Year Ending August 31,	Maintenance Tax Note		Unlimited Tax Refunding Bonds		Total
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2017	\$ 0	\$ 22,961	\$ 65,000	\$ 36,000	\$ 123,961
2018	21,333	22,960	65,000	34,050	143,343
2019	22,170	22,124	70,000	32,100	146,394
2020	23,039	21,255	70,000	30,000	144,294
2021	23,942	20,352	70,000	27,900	142,194
2022-2026	134,545	86,925	400,000	105,900	727,370
2027-2031	163,066	58,404	460,000	42,600	724,070
2032-2036	197,633	23,837	0	0	221,470
Totals	<u>\$ 585,728</u>	<u>\$ 278,818</u>	<u>\$ 1,200,000</u>	<u>\$ 308,550</u>	<u>\$ 2,373,096</u>

VERIBEST INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2016

III. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS - Continued

I. Outstanding Encumbrances

There were no outstanding encumbrances that were provided for in the subsequent year's budget.

J. Revenues from Local and Intermediate Sources

Local and intermediate source revenues consists of the following:

	General Fund	Special Revenue Funds	Debt Service Fund	Total
Property Taxes	\$ 1,422,171	\$ 0	\$ 145,249	\$ 1,567,420
Other Local Sources	26,383	7,904	1,038	35,325
Cocurricular, Enterprising Services, or Activities	12,780	55,485	0	68,265
Totals	\$ 1,461,334	\$ 63,389	\$ 146,287	\$ 1,671,010

IV. OTHER INFORMATION

A. Defined Benefit Pension Plan

Plan Description - The Veribest Independent School District participates in a cost-sharing multiple-employer defined benefit pension plan that has a special funding situation. The plan is administered by the Teacher Retirement System of Texas (TRS). It is a defined benefit pension plan 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.

VERIBEST INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2016

IV. OTHER INFORMATION

A. Defined Benefit Pension Plan

Pension Plan Fiduciary Net Position - Detailed information about the Teacher Retirement System's fiduciary net position is available in a separately-issued Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at <http://www.trs.state.tx.us/about/documents/cafr.pdf#CAFR>; by writing to TRS at 1000 Red River Street, Austin, Texas 78701-2698; or by calling (512)542-6592. The information provided in the notes the financial statements in the 2015 Comprehensive Annual Financial Report for TRS provides the following information regarding the pension plan fiduciary net position as of August 31, 2015:

<u>Net Pension Liability</u>	<u>Total</u>
Total Pension Liability	\$ 163,887,375,172
Less: Plan Fiduciary Net Position	<u>(128,538,706,212)</u>
Net Pension Liability	<u>\$ 35,348,668,960</u>
Net Position as Percentage of Total Pension Liability	78.43%

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% (multiplier) times the average of the 5 highest annual creditable salaries times years of credited service to arrive at the annual standard annuity except for members who are grandfathered; for those the 3 highest annual salaries are used. The normal service retirement is at age 65 with 5 years of credited service or when the sum of the member's age and years of credited service equals 80 or more years. Early retirement is at age 55 with 5 years of service credit or earlier than 55 with 30 years of service credit. There are additional provisions for early retirement if the sum of the member's age and years of service credit total at least 80, but the member is less than age 60 or 62 depending on date of employment, or if the member was grandfathered in under a previous rule. There are no automatic post-employment benefit changes, including automatic COLAs. Ad hoc post-employment benefit changes, including ad hoc COLAs, can be granted by the Texas Legislature as noted in the plan description above.

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.

VERIBEST INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2016

IV. OTHER INFORMATION - Continued

A. Defined Benefit Pension Plan - Continued

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

Contribution Rates		
	<u>2015</u>	<u>2016</u>
Member	6.7%	7.2%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%
District's 2016 Employer Contributions		\$ 87,140
District's 2016 Member Contributions		103,063
District's 2015 NECE On-Behalf Contributions		90,559

Contributors to the plan include members, employers, and the State of Texas as the only non-employer contributing entity. 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, 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 including public 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 or a privately sponsored source.

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 does not contribute to the Federal Old-Age, Survivors, and Disability Insurance (OASDI) program for certain employees, it 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.

VERIBEST INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2016

IV. OTHER INFORMATION - Continued

A. Defined Benefit Pension Plan - Continued

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

Valuation Date	August 31, 2015
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Single Discount Rate	8.0%
Long-Term Expected Investment Rate of Return	8.0%
Inflation	2.5%
Salary Increases Including Inflation	3.5% to 9.5%
Payroll Growth Rate	2.5%
Benefit Changes During the Year	None
Ad hoc Post Employment Benefit Changes	None

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

Discount Rate - The discount rate used to measure the total pension liability was 8%. 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

VERIBEST INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2016

IV. OTHER INFORMATION - Continued

A. Defined Benefit Pension Plan - Continued

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 System's target asset allocation as of August 31, 2015, are summarized below:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Real Return Geometric Basis</u>	<u>Long-Term Expected Portfolio Real Rate of Return*</u>
Global Equity			
U.S.	18.0%	4.6%	1.0%
Non-U.S. Developed	13.0%	5.1%	0.8%
Emerging Markets	9.0%	5.9%	0.7%
Directional Hedge Funds	4.0%	3.2%	0.1%
Private Equity	13.0%	7.0%	1.1%
Stable Value			
U.S. Treasuries	11.0%	0.7%	0.1%
Absolute Return	0.0%	1.8%	0.0%
Hedge Funds (Stable Value)	4.0%	3.0%	0.1%
Cash	1.0%	-0.2%	0.0%
Real Return			
Global Inflation Linked Bonds	3.0%	0.9%	0.0%
Real Assets	16.0%	5.1%	1.1%
Energy and Natural Resources	3.0%	6.6%	0.2%
Commodities	0.0%	1.2%	0.0%
Risk Parity			
Risk Parity	5.0%	6.7%	0.3%
Inflation Expectations			2.2%
Alpha			<u>1.0%</u>
Totals	<u>100.0%</u>		<u>8.7%</u>

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

Discount Rate Sensitivity Analysis - The following schedule shows the impact of the net pension liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (8%) in measuring the 2015 net pension liability.

	<u>1% Decrease in Discount Rate (7%)</u>	<u>Discount Rate (8%)</u>	<u>1% Increase in Discount Rate (9%)</u>
District's Proportionate Share of the Net Pension Liability	<u>\$ 707,318</u>	<u>\$ 451,438</u>	<u>\$ 238,306</u>

VERIBEST INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2016

IV. OTHER INFORMATION - Continued

A. Defined Benefit Pension Plan - Continued

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At August 31, 2016, the Veribest Independent School District reported a net pension liability of \$451,438 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	\$	451,438
State's Proportionate Share that is Associated with the District		<u>1,080,764</u>
Total		<u>\$ 1,532,202</u>

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

At August 31, 2015, the employer's proportion of the collective net pension liability was 0.000012771% which was an increase of 0.000007980% from its proportion measured as of August 31, 2014.

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

Economic Assumptions

1. The inflation assumption was decreased from 3% to 2.5%.
2. The ultimate merit assumption for long-service employees was decreased from 1.25% to 1%.
3. In accordance with the observed experience, there were small adjustments in the service-based promotional/longevity component of the salary scale.
4. The payroll growth assumption was lowered from 3.5% to 2.5%.

Mortality Assumptions

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

VERIBEST INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2016

IV. OTHER INFORMATION - Continued

A. Defined Benefit Pension Plan - Continued

Other Demographic Assumptions

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

Actuarial Methods and Policies

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

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

For the measurement period August 31, 2015, the Veribest Independent School District recognized pension expense of \$153,991 and revenue of \$153,991 for support provided by the State.

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences Between Expected and Actual Economic Experience	\$ 1,646	\$ 17,349
Changes in Actuarial Assumptions	6,918	16,105
Difference Between Projected and Actual Investment Earnings	81,843	-
Changes in Proportion and Difference Between the Employer's Contributions and the Proportionate Share of Contributions	182,338	119
Contributions Paid to TRS Subsequent to the Measurement Date	<u>40,631</u>	<u>-</u>
Totals	<u>\$ 313,376</u>	<u>\$ 33,573</u>

VERIBEST INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2016

IV. OTHER INFORMATION - Continued

A. Defined Benefit Pension Plan - Continued

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

<u>Year Ending August 31,</u>	<u>Pension Expense Amount</u>
2017	\$ 44,950
2018	44,950
2019	44,950
2020	54,728
2021	26,833
Thereafter	22,761

B. Retiree Health Plan

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

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

<u>Fiscal Year</u>	<u>Active Member</u>		<u>State On-Behalf</u>		<u>District</u>	
	<u>Rate</u>	<u>Amount</u>	<u>Rate</u>	<u>Amount</u>	<u>Rate</u>	<u>Amount</u>
2016	0.65%	\$ 9,304	1.0%	\$ 14,314	0.55%	\$ 7,872
2015	0.65%	9,725	1.0%	14,961	0.55%	8,229
2014	0.65%	9,485	1.0%	14,593	0.55%	8,026

VERIBEST INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2016

IV. OTHER INFORMATION - Continued

B. Retiree Health Plan - Continued

The Medicare Modernization Act of 2003 which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for Texas Public School Retired Employee Group Insurance Program (TRS-Care), administered by TRS, to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. Medicare Part D payments made on behalf of the District for fiscal years 2016-2014 are shown in the table below:

<u>Fiscal Year</u>	<u>Medicare Part D</u>
2016	\$ 6,190
2015	6,055
2014	3,828

C. Health Care Coverage

During the year ended August 31, 2016, employees of the District were covered by a health insurance plan (the Plan) through the TRS - Active Care Program administered by the Teacher Retirement System. The District contributed \$150 of the employee-only premium per month, and employees, at their option, authorized payroll withholdings to pay contributions for dependents. Under the Plan, the District is not liable for costs incurred beyond the premiums paid.

D. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters, for which the District participated in a public entity risk pool. There were no significant reductions in coverage in the past fiscal year, and there were no settlements exceeding coverage for each of the past three fiscal years.

E. Property and Liability Programs

During the year ended August 31, 2016, the District participated in the TASB Risk Management Fund's (the Fund's) Property and Liability Programs.

The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties.

The Fund purchases stop-loss coverage for protection against catastrophic and larger than anticipated claims for the Property and Liability Programs. The terms and limits of the stop-loss program vary by line of coverage. The Fund uses the services of an independent actuary to determine the adequacy of reserves and fully funds those reserves. For the year ended, August 31, 2016, the Fund anticipates that the District has no additional liability beyond the contractual obligations for payment of contributions.

The Fund engages the services of an independent auditor to conduct a financial audit after the close of each year on August 31. The audit is accepted by the Fund's Board of Trustees in February of the following year. The Fund's audited financial statements as of August 31, 2015, are available on the TASB Risk Management Fund website.

VERIBEST INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2016

IV. OTHER INFORMATION - Continued

F. Unemployment Compensation Coverage

During the year ended August 31, 2016, the District provided unemployment compensation coverage to its employees through participation in the TASB Risk Management Fund (the Fund). The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. The Fund's Unemployment Compensation Program is authorized by Section 22.005 of the Texas Education Code and Chapter 172 of the Texas Local Government Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties.

The Fund meets its quarterly obligation to the Texas Workforce Commission. Expenses are accrued monthly until the quarterly payment has been made. Expenses can be reasonably estimated; therefore, there is no need for specific or aggregate stop-loss coverage for the Unemployment Compensation pool. For the year ended August 31, 2016, the Fund anticipates that the District has no additional liability beyond the contractual obligations for payment of contributions.

The Fund engages the services of an independent auditor to conduct a financial audit after the close of each year on August 31. The audit is accepted by the Fund's Board of Trustees in February of the following year. The Fund's audited financial statements as of August 31, 2015, are available on the TASB Risk Management Fund website.

G. Workers' Compensation Insurance

During the year ended August 31, 2016, the District met its statutory workers' compensation obligations through participation in the TASB Risk Management Fund (the Fund). The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. The Fund's Workers' Compensation Program is authorized by Chapter 504, of the Texas Labor Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties. The Fund provides statutory workers' compensation benefits to its members injured employees.

The Fund and its members are protected against higher than expected claims costs through the purchase of stop-loss coverage for any claim in excess of the Fund's self-insured retention of \$2 million. The Fund uses the services of an independent actuary to determine reserve adequacy and fully funds those reserves. As of August 31, 2015, the Fund carries a discounted reserve of \$58,364,320 for future development on reported claims and claims that have been incurred but not yet reported. For the year ended August 31, 2016, the Fund anticipates no additional liability to members beyond their contractual obligations for payment of contributions.

The Fund engages the services of an independent auditor to conduct a financial audit after the close of each year on August 31. The audit is accepted by the Fund's Board of Trustees in February of the following year. The Fund's audited financial statements as of August 31, 2015, are available on the TASB Risk Management Fund website.

H. Contingencies

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

VERIBEST INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2016

IV. OTHER INFORMATION - Continued

I. Shared Services Arrangement

The District participates in a shared services arrangement for special education with nine other school districts. The District also participates in a shared services arrangement for accelerated programs for at risk students with ten other school districts. The District does not account for revenues or expenditures in this program and does not disclose them in these financial statements. The Wall Independent School District is the fiscal agent manager and is responsible for all financial activities of the shared services arrangement. The District expended \$181,978 to the shared services arrangement during the current year.

J. Adjustments to Net Position/Fund Balances

The financial statements reflect the following prior period adjustments:

	Net Position <u>Exhibit B-1</u>	Fund Balances <u>Exhibit C-3</u>
General Fund		
Foundation Adjustment	\$ 26,137	\$ 26,137
Miscellaneous Adjustments	<u>(3,253)</u>	<u>(3,253)</u>
Total General Fund	<u>\$ 22,884</u>	<u>\$ 22,884</u>

K. Subsequent Events

The District's management has evaluated subsequent events through November 7, 2016, the date which the financial statements were available for issue.

Required Supplementary Information

VERIBEST INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED AUGUST 31, 2016

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)	
	Original	Final			
REVENUES:					
5700	Total Local and Intermediate Sources	\$ 1,295,063	\$ 1,295,063	\$ 1,461,334	\$ 166,271
5800	State Program Revenues	1,436,765	1,436,765	1,402,463	(34,302)
5020	Total Revenues	2,731,828	2,731,828	2,863,797	131,969
EXPENDITURES:					
Current:					
0011	Instruction	1,168,403	1,197,403	1,192,331	5,072
0012	Instructional Resources and Media Services	23,488	23,488	23,232	256
0013	Curriculum and Instructional Staff Development	14,287	22,287	21,216	1,071
0023	School Leadership	192,663	192,663	176,874	15,789
0031	Guidance, Counseling, and Evaluation Services	47,489	47,489	45,682	1,807
0033	Health Services	28,309	30,309	29,270	1,039
0034	Student (Pupil) Transportation	152,836	182,836	178,166	4,670
0035	Food Services	5,000	7,500	4,612	2,888
0036	Extracurricular Activities	119,874	131,874	130,871	1,003
0041	General Administration	276,515	286,515	269,634	16,881
0051	Facilities Maintenance and Operations	316,902	321,902	319,211	2,691
0053	Data Processing Services	100,394	100,394	86,470	13,924
Debt Service:					
0073	Bond Issuance Cost and Fees	-	-	13,728	(13,728)
Capital Outlay:					
0081	Facilities Acquisition and Construction	60,000	633,000	607,012	25,988
Intergovernmental:					
0093	Payments to Fiscal Agent/Member Districts of SSA	182,459	214,347	181,978	32,369
0099	Other Intergovernmental Charges	-	16,962	12,980	3,982
6030	Total Expenditures	2,688,619	3,408,969	3,293,267	115,702
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	43,209	(677,141)	(429,470)	247,671
OTHER FINANCING SOURCES (USES):					
7914	Non-Current Loans	-	-	585,728	585,728
8911	Transfers Out (Use)	-	(67,209)	(48,504)	18,705
7080	Total Other Financing Sources (Uses)	-	(67,209)	537,224	604,433
1200	Net Change in Fund Balances	43,209	(744,350)	107,754	852,104
0100	Fund Balance - September 1 (Beginning)	2,180,458	2,180,458	2,180,458	-
1300	Increase (Decrease) in Fund Balance	-	-	22,884	22,884
3000	Fund Balance - August 31 (Ending)	\$ 2,223,667	\$ 1,436,108	\$ 2,311,096	\$ 874,988

VERIBEST INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
TEACHER RETIREMENT SYSTEM OF TEXAS
FOR THE YEAR ENDED AUGUST 31, 2016

EXHIBIT E-2

	<u>2016</u>	<u>2015</u>
District's Proportion of the Net Pension Liability (Asset)	0.000012771%	0.000004791%
District's Proportionate Share of Net Pension Liability (Asset)	\$ 451,438	\$ 127,973
State's Proportionate Share of the Net Pension Liability (Asset) Associated with the District	1,080,764	950,566
Total	<u>\$ 1,532,202</u>	<u>\$ 1,078,539</u>
District's Covered-Employee Payroll	\$ 1,496,096	\$ 1,459,263
District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	30.18%	8.76%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	78.43%	83.25%

Note: GASB 68, Paragraph 81 requires that the information on this schedule be data from the period corresponding with the periods covered as of the measurement dates of August 31, 2015 for Year 2016 and August 31, 2014 for 2015.

Note: In accordance with GASB 68, Paragraph 138, only two years of data are presented this reporting period. "The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

VERIBEST INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DISTRICT'S CONTRIBUTIONS
TEACHER RETIREMENT SYSTEM OF TEXAS
FOR FISCAL YEAR 2016

EXHIBIT E-3

	2016	2015
Contractually Required Contribution	\$ 40,631	\$ 37,517
Contribution in Relation to the Contractually Required Contribution	(40,631)	(37,517)
Contribution Deficiency (Excess)	\$ -0-	\$ -0-
District's Covered-Employee Payroll	\$ 1,431,433	\$ 1,496,096
Contributions as a Percentage of Covered-Employee Payroll	2.84%	2.50%

Note: GASB 68, Paragraph 81 requires that the data in this schedule be presented as of the District's respective fiscal years as opposed to the time periods covered by the measurement dates ending August 31, 2014 for Fiscal Year 2015 and August 31, 2015 for Fiscal Year 2016.

Note: In accordance with GASB 68, Paragraph 138, only two years of data are presented this reporting period. "The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

VERIBEST INDEPENDENT SCHOOL DISTRICT
Notes to the Required Supplementary Information
August 31, 2016

Note A - Net Pension Liability

Changes of Benefit Terms

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

Changes of Assumptions

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

Economic Assumptions

1. The inflation assumption was decreased from 3% to 2.5%.
2. The ultimate merit assumption for long-service employees was decreased from 1.25% to 1%.
3. In accordance with the observed experience, there were small adjustments in the service-based promotional/longevity component of the salary scale.
4. The payroll growth assumption was lowered from 3.5% to 2.5%.

Mortality Assumptions

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

Other Demographic Assumptions

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

Actuarial Methods and Policies

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

Other Supplementary Information

VERIBEST INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF DELINQUENT TAXES RECEIVABLE
 FISCAL YEAR ENDED AUGUST 31, 2016

Last 10 Years Ended August 31	(1)	(2)	(3)
	Tax Rates		Assessed/Appraised Value for School Tax Purposes
	Maintenance	Debt Service	
2007 and prior years	Various	Various	\$ Various
2008	1.170000	0.120000	61,466,877
2009	1.170000	0.120000	64,458,344
2010	1.170000	0.120000	74,606,408
2011	1.170000	0.120000	80,240,027
2012	1.170000	0.120000	86,988,062
2013	1.170000	0.120000	94,790,090
2014	1.170000	0.120000	98,482,496
2015	1.170000	0.120000	106,862,237
2016 (School year under audit)	1.170000	0.120000	121,335,737
1000 TOTALS			

(10) Beginning Balance 9/1/2015	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance 8/31/2016
\$ 1,689	\$ -	\$ -	\$ -	\$ -	\$ 1,689
-	-	-	-	-	-
38	-	-	-	-	38
175	-	-	-	-	175
154	-	-	-	-	154
610	-	188	19	(222)	181
3,574	-	38	4	(3,236)	296
3,255	-	2,046	210	(221)	778
34,988	-	13,450	1,379	(222)	19,937
-	1,565,231	1,391,389	142,707	-	31,135
<u>\$ 44,483</u>	<u>\$ 1,565,231</u>	<u>\$ 1,407,111</u>	<u>\$ 144,319</u>	<u>\$ (3,901)</u>	<u>\$ 54,383</u>

VERIBEST INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL - CHILD NUTRITION PROGRAM
 FOR THE YEAR ENDED AUGUST 31, 2016

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)	
	Original	Final			
REVENUES:					
5700	Total Local and Intermediate Sources	\$ 50,000	\$ 50,000	\$ 55,485	\$ 5,485
5800	State Program Revenues	1,000	1,000	919	(81)
5900	Federal Program Revenues	89,813	89,813	86,712	(3,101)
5020	Total Revenues	140,813	140,813	143,116	2,303
EXPENDITURES:					
0035	Food Services	180,022	200,022	191,620	8,402
6030	Total Expenditures	180,022	200,022	191,620	8,402
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	(39,209)	(59,209)	(48,504)	10,705
OTHER FINANCING SOURCES (USES):					
7915	Transfers In	39,209	67,209	48,504	(18,705)
1200	Net Change in Fund Balances	-	8,000	-	(8,000)
0100	Fund Balance - September 1 (Beginning)	-	-	-	-
3000	Fund Balance - August 31 (Ending)	\$ -	\$ 8,000	\$ -	\$ (8,000)

VERIBEST INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - DEBT SERVICE FUND
FOR THE YEAR ENDED AUGUST 31, 2016

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)	
	Original	Final			
REVENUES:					
5700	Total Local and Intermediate Sources	\$ 75,920	\$ 75,920	\$ 146,287	\$ 70,367
5800	State Program Revenues	21,880	21,880	44,123	22,243
5020	Total Revenues	97,800	97,800	190,410	92,610
EXPENDITURES:					
Debt Service:					
0071	Principal on Long-Term Debt	60,000	60,000	60,000	-
0072	Interest on Long-Term Debt	37,200	37,200	37,200	-
0073	Bond Issuance Cost and Fees	600	950	350	600
6030	Total Expenditures	97,800	98,150	97,550	600
1200	Net Change in Fund Balances	-	(350)	92,860	93,210
0100	Fund Balance - September 1 (Beginning)	279,264	279,264	279,264	-
3000	Fund Balance - August 31 (Ending)	\$ 279,264	\$ 278,914	\$ 372,124	\$ 93,210

COMPLIANCE AND INTERNAL CONTROLS SECTION



A Limited Liability Partnership

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Trustees
Veribest Independent School District
P.O. Box 490
Veribest, TX 76886-0490

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 the Veribest Independent School District as of and for the year ended August 31, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 7, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Veribest 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 Veribest Independent School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Veribest 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 District'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 the 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 Veribest Independent School District's financial statements are free of 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item: 2016-001.

District's Response to Findings

The Veribest Independent School District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly we express no opinion on the response.

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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Eckert & Company, LLP

November 7, 2016

VERIBEST INDEPENDENT SCHOOL DISTRICT
 Schedule of Findings and Questioned Costs
 Year Ended August 31, 2016

A. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued	<u>Unmodified</u>
Internal Control Over Financial Reporting	
Material weaknesses identified?	___ Yes <u>X</u> No
Significant deficiencies identified that are not considered to be material weaknesses?	___ Yes <u>X</u> None Reported
Noncompliance material to financial statements noted?	<u>X</u> Yes ___ No

B. Findings - Financial Statements Audit-None

None

C. Findings - State Compliance

Reference Number: 2016-001

Criteria:

Section 44.006 of the Texas Education Code states that public funds of the District may not be spent in any manner other than as provided for in the budget, as amended by the Board of Trustees.

Condition:

Expenditures exceeded appropriations in the following function:

General Fund	
Function 73 - Bond Issurance Cost and Fees	<u><u>\$ 13,728</u></u>

Cause:

District personnel did not follow guidelines for recording debt issuance transactions, and hence amendments to the budget were not adequate to ensure that expenditures did not exceed appropriations during the year.

Effect:

Public funds of the District were spent that were not provided for in the budget.

VERIBEST INDEPENDENT SCHOOL DISTRICT
Schedule of Findings and Questioned Costs - Continued
Year Ended August 31, 2016

C. Findings - State Compliance - Continued

Reference Number: 2016-001 - Continued

Auditor's Recommendation:

The District should refer to the Texas Education Agency's Financial Accountability System Resource Guide whenever they encounter new or unusual transactions. The budget should be monitored closely to see that amendments are made as necessary.

Administration's Response:

The District will refer to the Texas Education Agency's Financial Accountability System Resource Guide for guidance as well as monitor the budget closely to see that the amounts appropriated are adequate to cover all expenditures.

VERIBEST INDEPENDENT SCHOOL DISTRICT
Corrective Action Plan
Year Ended August 31, 2016

(Prepared by the District's Management)

The Veribest Independent School District submits the following corrective action plan for the year ended August 31, 2016:

Findings - State Compliance

2016-001 Budget Overexpenditure

Recommendation:

The District should monitor the budget closely to see that amendments are made as necessary.

Action Taken:

The District will monitor the budget closely to see that amendments are made as necessary.

Anticipated Completion Date: Throughout Fiscal Year Ending August 31, 2017

Contact Person

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