

ANNUAL FINANCIAL REPORT

of the

**WILLIS INDEPENDENT
SCHOOL DISTRICT**

For the Year Ended
August 31, 2012

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WILLIS INDEPENDENT SCHOOL DISTRICT

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INTRODUCTORY SECTION

CERTIFICATE OF BOARD

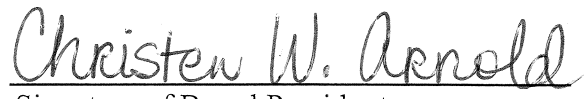
Willis Independent School District
Name of school district

Montgomery
County

170-904
Co. Dist. Number

We, the undersigned, clarify that the attached annual financial reports of the above named school district were reviewed and (check one) ☒ approved ☐ disapproved for the year ended August 31, 2012, at a meeting of the board of trustees of such school district on the 12th day of December, 2012.


Signature of Board Secretary


Signature of Board President

If the board of trustees disapproved of the auditors' report, the reason(s) for disapproving it is (are):

(attach list as necessary)

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FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of the
Willis Independent School District:

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Willis Independent School District (the "District") as of and for the year ended August 31, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as explained in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the District as of August 31, 2012, and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2012 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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The Management's Discussion and Analysis and budgetary comparison information, identified as Required Supplementary Information on the table of contents, are not required parts of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who consider 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The introductory section and combining statements and schedules are presented for purposes of additional analysis and are not required parts of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The combining fund statements and schedules and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory section and schedule labeled "unaudited" have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

BELT HARRIS PECHACEK, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas
November 30, 2012

***MANAGEMENT'S DISCUSSION
AND ANALYSIS***

WILLIS INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended August 31, 2012

This discussion and analysis of Willis Independent School District's (the "District") financial performance provides an overview of the District's financial activities for the fiscal year ended August 31, 2012. It should be read in conjunction with the District's financial statements.

FINANCIAL HIGHLIGHTS

- The District's total combined net assets at August 31, 2012 were \$26,286,396.
- For the fiscal year ended August 31, 2012, the District's general fund reported a total fund balance of \$16,509,353, of which \$8,900,000 is assigned for construction and other purposes, \$1,955 is nonspendable in the form of inventory, and \$7,607,398 is unassigned.
- At the end of the fiscal year, the District's governmental funds (the general fund plus all state and federal grant funds, the debt service fund, and the capital projects fund) reported combined ending fund balances of \$18,920,102.

OVERVIEW OF THE FINANCIAL STATEMENTS

The annual report consists of three parts – *Management's Discussion and Analysis* (this section), the *Basic Financial Statements*, and *Required Supplementary Information*. The basic statements include two kinds of statements that present different views of the District.

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

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The notes to the financial statements are followed by a section entitled *Required Supplementary Information* that further explains and supports the information in the financial statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

WILLIS INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended August 31, 2012

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

The government-wide financial statements of the District include the *governmental activities*. Most of the District's basic services such as instruction, extracurricular activities, curriculum and staff development, health services, general administration, and plant operation and maintenance are included in *governmental activities*. Locally assessed property taxes, together with State foundation program entitlements, which are based upon student enrollment and attendance, finance most of the governmental activities.

FUND FINANCIAL STATEMENTS

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

- Some funds are required by State law and other funds are mandated by bond agreements or bond covenants.
- The Board of Trustees establishes other funds to control and manage money set aside for particular purposes or to show that the District is properly using certain taxes and grants.
- Other funds are used to account for assets held by the District in a custodial capacity – these assets do not belong to the District, but the District is responsible to properly account for them.

The District has the following kinds of funds:

- *Governmental funds* – Most of the District's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explains the relationship (or differences) between them.
- *Proprietary funds* – The District operates the Early Bird Child Care. This program is financed through the collection of fees and tuition from participants. The proprietary funds also show the activity of internal services offered throughout the District including a health insurance fund and workers' compensation insurance.

WILLIS INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended August 31, 2012

- *Fiduciary funds* – The District serves as the trustee, or fiduciary, for certain funds such as student activity funds. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District's fiduciary activities reported in these funds are used for their intended purposes. All of the District's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. We exclude these activities from the District's government-wide financial statements because the District cannot use these assets to finance its governmental operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The District's combined net assets were \$26,286,396 at August 31, 2012. Table 1 focuses on the net assets while Table 2 shows the revenues and expenses that changed the net asset balance during the fiscal year ended August 31, 2012. Table 1 indicates the overall condition of the District increased, which was the result of the District decreasing expenses by reducing payroll costs through the early exit incentive program and decreasing staff size. Table 2 reflects the District reporting additional property tax revenue as a result of increases to assessed property valuations within the District. Additionally, the District reported a decrease in expenses compared to the prior year resulting from the reduced staff size mentioned above.

Table 1
Net Assets

Description	Governmental Activities		Total Dollar Change 2012-2011	Business-Type Activities	
	2012	2011		2012	2011
Current assets	\$ 29,488,956	\$ 32,540,335	\$ (3,051,379)	\$ 242,760	\$ 207,919
Capital assets	86,547,853	88,197,250	(1,649,397)	-	-
Restricted assets	20,000	63,894	(43,894)	-	-
Total Assets	116,056,809	120,801,479	(4,744,670)	242,760	207,919
Current liabilities	6,369,487	9,274,346	(2,904,859)	144	132
Long-term liabilities	83,400,926	87,087,166	(3,686,240)	-	-
Total Liabilities	89,770,413	96,361,512	(6,591,099)	144	132
Net Assets:					
Invested in capital assets	3,146,927	1,110,084	2,036,843	-	-
Restricted	2,410,749	2,547,595	(136,846)	-	-
Unrestricted	20,728,720	20,782,288	(53,568)	242,616	207,787
Total Net Assets	\$ 26,286,396	\$ 24,439,967	\$ 1,846,429	\$ 242,616	\$ 207,787

WILLIS INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended August 31, 2012

Table 2
Changes in Net Assets

	Governmental Activities		Total Change 2012-2011	Business-Type Activities	
	2012	2011		2012	2011
Revenues:					
Program Revenues:					
Charges for services	\$ 1,063,973	\$ 1,125,154	\$ (61,181)	\$ 88,700	\$ 93,709
Operating grants and contributions	6,491,174	8,332,038	(1,840,864)	-	-
General Revenues:					
Property taxes	28,819,079	28,235,354	583,725	-	-
State aid - formula grants	20,861,163	20,985,102	(123,939)	-	-
Grants & contributions not restricted	1,032,587	1,386,301	(353,714)	-	-
Investment earnings	72,535	78,495	(5,960)	-	-
Miscellaneous	1,468,314	1,468,104	210	-	-
Total Revenue	59,808,825	61,610,548	(1,801,723)	88,700	93,709
Expenses:					
Instruction	29,273,479	31,794,764	(2,521,285)	-	-
Instructional resources & media services	798,878	609,532	189,346	-	-
Curriculum and staff development	661,892	666,651	(4,759)	-	-
Instructional leadership	205,343	219,268	(13,925)	-	-
School leasershship	3,225,169	3,321,462	(96,293)	-	-
Guidance, counseling & evaluation services	1,743,694	1,855,567	(111,873)	-	-
Social work/health services	690,190	724,389	(34,199)	-	-
Student transportation	2,554,597	3,432,629	(878,032)	-	-
Food services	3,673,096	3,680,799	(7,703)	-	-
Co-curricular/extracurricular activities	1,793,991	1,812,480	(18,489)	-	-
General administration	1,413,628	1,580,269	(166,641)	-	-
Plant maintenance and operations	6,431,230	6,215,414	215,816	-	-
Security and monitoring	601,216	410,462	190,754	-	-
Data processing services	284,109	241,690	42,419	-	-
Community services	44,348	57,099	(12,751)	53,871	49,829
Debt services - interest on long-term debt	4,351,716	4,111,161	240,555	-	-
Other intergovernmental charges	215,820	218,089	(2,269)	-	-
Total Expenses	57,962,396	60,951,725	(2,989,329)	53,871	49,829
Change in Net Assets	1,846,429	658,823	\$ (1,187,606)	34,829	43,880
Beginning net assets	24,439,967	23,781,144		207,787	163,907
Ending Net Assets	\$ 26,286,396	\$ 24,439,967		\$ 242,616	\$ 207,787

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

At the close of the fiscal year ending August 31, 2012, the District combined governmental funds reported a combined fund balance of \$18,920,102. This compares to a combined fund balance of \$18,574,643 at August 31, 2011. The fund balance in the general fund increased due an increase in property tax revenue as a result of an increase in the appraised values of properties within the District and a decrease in payroll costs related to a reduced staff size. The debt service fund decreased due to debt service payments exceeding property tax revenue.

WILLIS INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended August 31, 2012

GENERAL FUND BUDGETARY HIGHLIGHTS

In accordance with State law and generally accepted accounting standards, the District prepares an annual budget for the general fund, the food service special revenue fund, and the debt service fund. The District budgets the capital projects fund for each *project*, which normally covers multiple years. Special revenue funds have budgets approved by the funding agency and are amended throughout the year as required.

During the period ended August 31, 2012, the District amended its budget as required by State law to reflect current levels of revenue and anticipated expenses. There were no material changes between the original budget and the final amended budget. The general fund's actual revenues exceeded budgeted revenues by \$995,036 and the budgeted expenditures exceeded actual expenditures by \$893,069.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Capital assets are generally defined as those items that have useful lives of two years or more and have an initial cost or value (if donated) of an amount determined by the Board. During the fiscal year ended August 31, 2012, the District used a capitalization threshold of \$5,000, which means that all capital type assets, including library books, with a cost or initial value of less than \$5,000 were not included in the capital assets inventory.

At August 31, 2012, the District had a total of \$124,278,727 invested in capital assets such as land, buildings, and District equipment. This total includes \$1,702,147 invested during the fiscal year ended August 31, 2012.

More detailed information about the District's capital assets can be found in the notes to the financial statements.

Long-Term Debt

At year end, the District had \$83,124,022 in general obligation bonds outstanding versus \$86,933,795 last year. The decrease is due to annual principal payments during the year totaling \$3,809,773.

More detailed information about the District's long-term liabilities is presented in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The District's budgeted expenditures for the 2012-2013 school year total \$44,813,323 and the District's Board of Trustees adopted a Maintenance and Operations tax rate of \$1.04 and an Interest and Sinking rate of \$0.33 for a combined rate of \$1.37.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Willis Independent School District business office at 204 West Rogers, Willis, Texas, 77378, or at (936)-856-1200.

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BASIC FINANCIAL STATEMENTS

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WILLIS INDEPENDENT SCHOOL DISTRICT

STATEMENT OF NET ASSETS - EXHIBIT A-1

August 31, 2012

Data Control Codes		1 Governmental Activities	2 Business-Type Activities	Total
	<u>Assets</u>			
1110	Cash and cash equivalents	\$ 537,939	\$ -	\$ 537,939
1120	Current investments	27,112,269	-	27,112,269
1220	Property taxes receivable (delinquent)	2,008,793	-	2,008,793
1230	Allowance for uncollectible taxes	(517,502)	-	(517,502)
1240	Due from other governments	142,022	-	142,022
1260	Internal balances	(242,760)	242,760	-
1290	Other receivables (net)	186,091	-	186,091
1300	Inventories	1,955	-	1,955
1420	Deferred charges	260,149	-	260,149
		<u>29,488,956</u>	<u>242,760</u>	<u>29,731,716</u>
	Capital assets:			
1510	Land	3,678,425	-	3,678,425
1520	Buildings, net	78,765,412	-	78,765,412
1530	Furniture and equipment, net	1,115,365	-	1,115,365
1540	Vehicles, net	2,988,651	-	2,988,651
		<u>86,547,853</u>	<u>-</u>	<u>86,547,853</u>
1800	Restricted assets	20,000	-	20,000
1000	Total Assets	<u>116,056,809</u>	<u>242,760</u>	<u>116,299,569</u>
	<u>Liabilities</u>			
2110	Accounts payable	2,938,524	-	2,938,524
2140	Interest payable	415,954	-	415,954
2150	Payroll deductions and withholdings payable	93,175	-	93,175
2160	Accrued wages payable	1,701,664	144	1,701,808
2200	Accrued Expenses	35,989	-	35,989
2300	Deferred revenues	1,184,181	-	1,184,181
		<u>6,369,487</u>	<u>144</u>	<u>6,369,631</u>
	Noncurrent liabilities:			
2501	Long-term liabilities due within one year	4,160,000	-	4,160,000
2502	Long-term liabilities due in more than one year	79,240,926	-	79,240,926
		<u>83,400,926</u>	<u>-</u>	<u>83,400,926</u>
2000	Total Liabilities	<u>89,770,413</u>	<u>144</u>	<u>89,770,557</u>
	<u>Net Assets</u>			
3200	Invested in capital assets, net of related debt	3,146,927	-	3,146,927
	Restricted for:			
3850	Debt service	399,928	-	399,928
3890	Other purposes	2,010,821	-	2,010,821
3900	Unrestricted	20,728,720	242,616	20,971,336
3000	Total Net Assets	<u>\$ 26,286,396</u>	<u>\$ 242,616</u>	<u>\$ 26,529,012</u>

See Notes to Financial Statements.

WILLIS INDEPENDENT SCHOOL DISTRICT

STATEMENT OF ACTIVITIES - EXHIBIT B-1

For the Year Ended August 31, 2012

Data Control Codes	Functions/Programs	1 Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
			3 Charges for Services	4 Operating Grants and Contributions	
					6 Primary Gov. Governmental Activities
	Governmental Activities				
11	Instruction	\$ 29,273,479	\$ -	\$ 3,129,678	\$ (26,143,801)
12	Instructional resources				
12	and media services	798,878	-	-	(798,878)
13	Curriculum and instructional				
13	staff development	661,892	-	122,265	(539,627)
21	Instructional leadership	205,343	-	75,824	(129,519)
23	School leadership	3,225,169	-	121,648	(3,103,521)
31	Guidance, counseling,				
31	and evaluation services	1,743,694	-	386,457	(1,357,237)
32	Social work services	102,253	-	-	(102,253)
33	Health services	587,937	-	1,020	(586,917)
34	Student transportation	2,554,597	-	-	(2,554,597)
35	Food services	3,673,096	1,063,973	2,654,282	45,159
36	Extracurricular activities	1,793,991	-	-	(1,793,991)
41	General administration	1,413,628	-	-	(1,413,628)
51	Plant maintenance and operations	6,431,230	-	-	(6,431,230)
52	Security and monitoring services	601,216	-	-	(601,216)
53	Data processing services	284,109	-	-	(284,109)
61	Community services	44,348	-	-	(44,348)
72	Interest on long term debt	4,351,716	-	-	(4,351,716)
95	Payments to JJAEP	9,600	-	-	(9,600)
99	Other intergovernment charges	206,220	-	-	(206,220)
TGA	Total Governmental Activities	<u>57,962,396</u>	<u>1,063,973</u>	<u>6,491,174</u>	<u>(50,407,249)</u>
	Business-Type Activities				
BTA	Early bird child care	53,871	88,700	-	-
TPG	Total Primary Government	<u>\$ 58,016,267</u>	<u>\$ 1,152,673</u>	<u>\$ 6,491,174</u>	<u>(50,407,249)</u>
MT	Property taxes, levied for general purposes				21,967,488
DT	Property taxes, levied for debt service				6,851,591
SF	State aid - formula grants				20,861,163
GC	Grants and contributions not restricted				1,032,587
IE	Investment earnings				72,535
MI	Miscellaneous local and intermediate revenue				1,468,314
TR				Total General Revenues	<u>52,253,678</u>
CN				Change in Net Assets	<u>1,846,429</u>
NB	Beginning net assets				<u>24,439,967</u>
NE				Ending Net Assets	<u>\$ 26,286,396</u>

See Notes to Financial Statements.

Net (Expense) Revenue and Changes in Net Assets	
7 Primary Gov. Business-Type Activities	
	Total
\$ -	\$ (26,143,801)
-	(798,878)
-	(539,627)
-	(129,519)
-	(3,103,521)
-	(1,357,237)
-	(102,253)
-	(586,917)
-	(2,554,597)
-	45,159
-	(1,793,991)
-	(1,413,628)
-	(6,431,230)
-	(601,216)
-	(284,109)
-	(44,348)
-	(4,351,716)
-	(9,600)
-	(206,220)
-	(50,407,249)
34,829	34,829
34,829	(50,372,420)
-	21,967,488
-	6,851,591
-	20,861,163
-	1,032,587
-	72,535
-	1,468,314
-	52,253,678
34,829	1,881,258
207,787	24,647,754
\$ 242,616	\$ 26,529,012

WILLIS INDEPENDENT SCHOOL DISTRICT

BALANCE SHEET

GOVERNMENTAL FUNDS - EXHIBIT C-1

August 31, 2012

Data Control Codes		10	50	Nonmajor	98
		General	Debt Service	Governmental Funds	Total Governmental Funds
	Assets:				
1110	Cash and cash equivalents	\$ 411,637	\$ 34	\$ 96,595	\$ 508,266
1120	Current investments	23,442,612	483,990	649,568	24,576,170
1220	Property taxes - delinquent	1,574,148	434,645	-	2,008,793
1230	Allowance for uncollectible taxes	(428,429)	(89,073)	-	(517,502)
1240	Due from other governments	-	-	142,022	142,022
1260	Due from other funds	48,108	-	1,366,071	1,414,179
1290	Other receivables	14,914	-	-	14,914
1300	Inventories	1,955	-	-	1,955
1800	Restricted assets	20,000	-	-	20,000
1000	Total Assets	<u>\$ 25,084,945</u>	<u>\$ 829,596</u>	<u>\$ 2,254,256</u>	<u>\$ 28,168,797</u>
	Liabilities:				
2110	Accounts payable	\$ 1,734,630	\$ -	\$ 7,261	\$ 1,741,891
2150	Payroll deductions payable	93,175	-	-	93,175
2160	Accrued wages payable	1,469,419	-	232,245	1,701,664
2170	Due to other funds	2,952,396	48,108	-	3,000,504
2200	Accrued expenses	-	35,989	-	35,989
2300	Deferred revenue	2,325,972	345,571	3,929	2,675,472
2000	Total Liabilities	<u>8,575,592</u>	<u>429,668</u>	<u>243,435</u>	<u>9,248,695</u>
	Fund Balances:				
	Nonspendable:				
3410	Inventories and prepaids	1,955	-	-	1,955
	Restricted for:				
3450	Grant funds	-	-	2,010,821	2,010,821
3480	Debt service	-	399,928	-	399,928
	Assigned:				
3510	Construction	2,655,000	-	-	2,655,000
3530	Capital expenditures for equipment	2,995,000	-	-	2,995,000
3590	Other designated fund balance	3,250,000	-	-	3,250,000
	Unassigned:				
3600	General fund	7,607,398	-	-	7,607,398
3000	Total Fund Balances	<u>16,509,353</u>	<u>399,928</u>	<u>2,010,821</u>	<u>18,920,102</u>
4000	Total Liabilities and Fund Balances	<u>\$ 25,084,945</u>	<u>\$ 829,596</u>	<u>\$ 2,254,256</u>	<u>\$ 28,168,797</u>

See Notes to Financial Statements.

WILLIS INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET ASSETS - EXHIBIT C-1R
August 31, 2012

Total fund balances for governmental funds	\$	18,920,102
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Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not current financial resources and, therefore, not reported in the governmental funds.

Capital assets - non-depreciable	\$	3,678,425	
Capital assets - depreciable		82,869,428	
			86,547,853

Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds.

1,491,291

Internal services funds are used by management to charge the costs of of certain capital assets to individual funds. The assets and liabilities of the Internal Service Fund are included in the governmental activities in the Statement of Net Assets.

2,883,881

Some liabilities, including bonds payable, are not reported as liabilities in the governmental funds.

Accrued interest	\$	(415,954)	
Deferred charges		260,149	
Non-current liabilities due in one year		(4,160,000)	
Non-current liabilities due in more than one year		(79,240,926)	
			(83,556,731)

Net Assets of Governmental Activities

\$ 26,286,396

See Notes to Financial Statements.

WILLIS INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS - EXHIBIT C-2
For the Year Ended August 31, 2012

Data Control Codes		General	Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
<u>Revenues</u>					
5700	Local, intermediate, and out-of-state	\$ 22,341,113	\$ 6,854,728	\$ 1,088,991	\$ 30,284,832
5800	State program revenues	22,826,274	39,159	40,062	22,905,495
5900	Federal program revenues	69,343	-	6,474,059	6,543,402
5020	Total Revenues	45,236,730	6,893,887	7,603,112	59,733,729
<u>Expenditures</u>					
0011	Instruction	24,572,044	-	2,689,820	27,261,864
0012	Instruction resources				
0012	and media services	326,377	-	380,281	706,658
0013	Curriculum and instructional				
0013	staff development	539,627	-	122,265	661,892
0021	Instructional leadership	129,519	-	75,824	205,343
0023	School leadership	2,746,332	-	121,648	2,867,980
0031	Guidance, counseling,				
0031	and evaluation services	1,350,194	-	386,457	1,736,651
0032	Social work services	101,233	-	1,020	102,253
0033	Health services	490,910	-	83,377	574,287
0034	Student transportation	3,078,928	-	32,862	3,111,790
0035	Food services	14,784	-	3,553,002	3,567,786
0036	Extracurricular activities	1,226,688	-	88	1,226,776
0041	General administration	1,408,433	-	-	1,408,433
0051	Plant maintenance and operations	6,684,957	-	120,028	6,804,985
0052	Security and monitoring services	724,187	-	-	724,187
0053	Data processing services	240,105	-	-	240,105
0061	Community services	572	-	43,776	44,348
Debt service:					
0071	Principal	-	4,287,182	-	4,287,182
0072	Interest and fiscal charges	-	3,639,930	-	3,639,930
0073	Bond issuance costs	-	126,531	-	126,531
Intergovernmental:					
0095	Payments to juvenile justice alternative	9,600	-	-	9,600
0099	Other intergovernmental charges	206,220	-	-	206,220
6030	Total Expenditures	43,850,710	8,053,643	7,610,448	59,514,801
1100	Excess (Deficiency) of Revenues				
1100	Over (Under) Expenditures	1,386,020	(1,159,756)	(7,336)	218,928
<u>Other Financing Sources (Uses)</u>					
7911	Sale of refunding bonds	-	6,160,000	-	6,160,000
7916	Premium on issuance of bonds		1,042,460		1,042,460
8949	Payment to refunding escrow agent	-	(7,075,929)	-	(7,075,929)
7915	Transfers in	-	967,609	-	967,609
8911	Transfers (out)	(770,000)	-	(197,609)	(967,609)
7080	Total Other Financing Sources (Uses)	(770,000)	1,094,140	(197,609)	126,531
1200	Net Change in Fund Balances	616,020	(65,616)	(204,945)	345,459
0100	Beginning fund balances	15,893,333	465,544	2,215,766	18,574,643
3000	Ending Fund Balances	\$ 16,509,353	\$ 399,928	\$ 2,010,821	\$ 18,920,102

See Notes to Financial Statements.

WILLIS INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES - EXHIBIT C-3
For the Year Ended August 31, 2012

Net changes in fund balances - total governmental funds	\$	345,459
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Depreciation		(3,351,544)
Capital outlay		1,702,147

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		75,096
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The issuance of long-term debt (e.g., bonds, leases, certificates of obligation) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when it is first issued; whereas, these amounts are deferred and amortized in the Statement of Activities.

Principal repayments		4,287,182
Amortization of other items		104,979
Accrued interest		(219,025)
Accreted interest		(480,199)
Payment to bond refunding escrow agent		6,162,790
Bonds issued		(6,160,000)
Premium on bonds issued		(1,042,460)
Other debt items		922,129

Internal service funds are used by management to charge the costs of certain activities, such as fleet maintenance, to individual funds. The net revenue (expense) of certain internal service funds is reported with governmental activities.		(500,125)
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Change in Net Assets of Governmental Activities	\$	<u>1,846,429</u>
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See Notes to Financial Statements.

WILLIS INDEPENDENT SCHOOL DISTRICT

STATEMENT OF NET ASSETS PROPRIETARY FUNDS - EXHIBIT D-1

August 31, 2012

Data Control Codes		Nonmajor Enterprise Fund Early Bird Child Care	Internal Service Fund
	<u>Assets</u>		
1110	Cash and cash equivalents	\$ -	\$ 29,673
1120	Investments	-	2,536,099
1260	Due from other funds	242,760	1,343,565
1290	Other receivables	-	171,177
	Total Assets	<u>242,760</u>	<u>4,080,514</u>
	<u>Liabilities</u>		
	Current liabilities:		
2110	Accounts payable	-	1,196,633
2160	Accrued wages payable	144	-
2000	Total Liabilities	<u>144</u>	<u>1,196,633</u>
	<u>Net Assets</u>		
3600	Unrestricted	242,616	2,883,881
4000	Total Net Assets	<u><u>\$ 242,616</u></u>	<u><u>\$ 2,883,881</u></u>

See Notes to Financial Statements.

WILLIS INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS - EXHIBIT D-2
For the Year Ended August 31, 2012

Data Control Dates			Nonmajor Enterprise Fund	
			Early Bird Child Care	Internal Service Fund
	<u>Operating Revenues</u>			
5700	Local and intermediate sources		\$ 88,700	\$ 3,939,265
5020		Total Operating Revenues	<u>88,700</u>	<u>3,939,265</u>
	<u>Operating Expenses</u>			
0011	Instruction		5,454	-
0041	Other operating costs		1,056	4,439,390
0061	Community services		47,361	-
		Total Operating Expenses	<u>53,871</u>	<u>4,439,390</u>
1100	Operating Income (Loss)		34,829	(500,125)
1200		Change in Net Assets	34,829	(500,125)
0100	Beginning net assets		207,787	3,384,006
3000		Ending Net Assets	<u>\$ 242,616</u>	<u>\$ 2,883,881</u>

See Notes to Financial Statements.

WILLIS INDEPENDENT SCHOOL DISTRICT

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS - EXHIBIT D-3

For the Year Ended August 31, 2012

	Nonmajor Enterprise Fund	
	Early Bird Child Care	Internal Service Funds
<u>Cash Flows from Operating Activities</u>		
Receipts from user charges	\$ 53,859	\$ 3,815,628
Payment for insurance claims	(53,859)	(4,439,390)
Net Cash (Used) by Operating Activities	<u>-</u>	<u>(623,762)</u>
Change in Cash and Cash Equivalents	-	(623,762)
Beginning cash and cash equivalents	-	3,189,534
Ending Cash and Cash Equivalents	<u><u>\$ -</u></u>	<u><u>\$ 2,565,772</u></u>
Reconciliation of Operating Income to Net Cash (Used) by Operating Activities		
Operating income	\$ 34,829	\$ (500,125)
Adjustments to reconcile operating income to net cash provided by operating activities:		
(Decrease) in:		
Intergovernmental receivable	(34,841)	(123,637)
Accounts payable and accrued liabilities	12	-
Net Cash (Used) by Operating Activities	<u><u>\$ -</u></u>	<u><u>\$ (623,762)</u></u>

See Notes to Financial Statements.

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WILLIS INDEPENDENT SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET ASSETS

FIDUCIARY FUNDS - EXHIBIT E-1

August 31, 2012

		<u>Agency Funds</u>
<u>Assets</u>		
Cash and cash equivalents		<u>\$ 450,632</u>
Total Assets		<u><u>\$ 450,632</u></u>
<u>Liabilities</u>		
Current liabilities:		
Due to student groups		<u>\$ 450,632</u>
Total Liabilities		<u><u>\$ 450,632</u></u>

See Notes to Financial Statements.

WILLIS INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Willis Independent School District (the "District") is a public educational agency operating under the applicable laws and regulations of the State of Texas. It is governed by a seven-member Board of Trustees (the "Board") elected by registered voters of the District. The District prepares its basic financial statements in conformity with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board ("GASB") and other authoritative sources identified in *Statement on Auditing Standards No. 69* of the American Institute of Certified Public Accountants; and it complies with the requirements of the appropriate version of Texas Education Agency's ("TEA") *Financial Accountability System Resource Guide* (the "Resource Guide") and the requirements of contracts and grants of agencies from which it receives funds.

The District is an independent political subdivision of the State of Texas governed by a board elected by the public and it has the authority to make decisions, appoint administrators and managers, and significantly influence operations and is considered a primary government. As required by generally accepted accounting principles, these general purpose financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations, or functions as part of the District's financial reporting entity. No other entities have been included in the District's reporting entity. Additionally, as the District is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

Considerations regarding the potential for inclusion of other entities, organizations, or functions in the District's financial reporting entity are based on criteria prescribed by generally accepted accounting principles. These same criteria are evaluated in considering whether the District is a part of any other governmental or other type of reporting entity. The overriding elements associated with the prescribed criteria considered in determining that the District's financial reporting entity status is that of a primary government are that it has a separately elected governing body, it is legally separate, and it is fiscally independent of other state and local governments. Additionally, prescribed criteria under generally accepted accounting principles include considerations pertaining to organizations for which the primary government is financially accountable, and considerations pertaining to organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

B. Financial Statement Presentation

These financial statements include GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Certain requirements of the statement include the following:

- A Management's Discussion and Analysis (MD&A) section providing an analysis of the District's overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the District's activities.
- A change in the fund financial statements to focus on the major funds.

WILLIS INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended August 31, 2012

Statement No. 34 established standards for external financial reporting for all state and local governmental entities which includes a Statement of Net Assets and a Statement of Activities. It requires the classification of net assets into three components – invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

- *Invested in capital assets, net of related debt* – This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- *Restricted* – This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulation of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted* – This component of net assets consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

C. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information about the District as a whole. These statements include all activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions, and are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the District’s governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include charges paid by the recipients of goods or services offered by the programs and grants that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, such as taxes and investment earnings, are presented as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds, if applicable, are reported as separate columns in the fund financial statements. In the fund financial statements, the accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Following is a description of the various funds:

Governmental Funds

Governmental funds are those funds through which most governmental functions are typically financed.

WILLIS INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended August 31, 2012

General Fund

The general fund is used to account for and report all financial resources not accounted for and reported in another fund. The general fund is considered a major fund for reporting purposes.

Debt Service Fund

The debt service fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditures for principal and interest on all long-term debt of the District. The primary source of revenue for debt service is local property taxes. The debt service fund is considered a major fund for reporting purposes.

Capital Projects Funds

The capital projects fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. The capital projects fund is not considered a major fund for reporting purposes.

Special Revenue Funds

The special revenue fund is used to account for the proceeds of specific revenue sources that are restricted or committed to expenditure for specific purposes other than debt service or capital projects. The restricted or committed proceeds of specific revenue sources comprise a substantial portion of the inflows of these special revenue funds. Most federal and some state financial assistance is accounted for in a special revenue fund.

Proprietary Fund Types

Proprietary funds are used to account for activities that are similar to those often found in the private sector. All assets, liabilities, equities, revenues, expenses, and transfers relating to the District's business activities are accounted for through proprietary funds. The measurement focus is on determination of net income, financial position, and cash flows. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues include charges for services. Operating expenses include costs of materials, contracts, personnel, and depreciation. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. Proprietary fund types follow Generally Accepted Accounting Principles ("GAAP") prescribed by the GASB and all Financial Accounting Standards Board standards issued prior to November 30, 1989. Subsequent to this date, the District accounts for its enterprise funds as presented by GASB.

The proprietary fund types used by the District include the following:

Enterprise Fund

The enterprise fund is used to account for the operations that provide Early Bird Child Care program operations. The services are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis will be

WILLIS INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended August 31, 2012

financed or recovered primarily through user charges. This is not considered a major fund for reporting purposes.

Internal Service Fund

Internal service funds account for services provided to other departments or agencies of the primary government, or to other governments, on a cost reimbursement basis. The District's internal service fund is used to account for workers' compensation insurance.

Fiduciary Funds

The fiduciary funds account for assets held by the District in a trustee capacity or as an agent on behalf of others. 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. The District has the following type of fiduciary funds:

Agency Funds

The agency funds are custodial in nature and do not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. These funds are used to account for the District's student activity funds.

D. Measurement Focus and Basis of Accounting

The government-wide Statement of Net Assets and Statement of Activities and all proprietary funds are accounted for on a flow of economic resources measurement focus – accrual basis of accounting. With this measurement focus, all assets and all liabilities associated with the operations of these activities are included on the balance sheet. Proprietary fund equity consists of net assets. Proprietary fund-type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in total net assets.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing resources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The District utilizes the modified accrual basis of accounting in the governmental fund type. Under the modified accrual basis of accounting, revenues are recognized in the accounting period when they are susceptible to accrual (i.e., when they are measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues available if they are collected within 60 days of the end of the current period. Revenues susceptible to accrual include charges for services and interest on temporary investments.

Property taxes and interest associated with the current period are all considered to be susceptible to accrual and so have been recognized as revenues of the current period. Other receipts and other taxes become measurable and available when cash is received by the government and are recognized as revenue at that time.

WILLIS INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended August 31, 2012

Under modified accrual accounting, expenditures are recognized in the accounting period in which the liability is incurred, if measurable, except for interest on long-term debt, which is recognized when due.

Generally, the effect of interfund activity has been eliminated from the government-wide financial statements.

E. Assets, Liabilities, and Net Assets or Fund Equity

1. Deposits and Investments

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

In accordance with GASB Statement No. 31, *Accounting and Reporting for Certain Investments and External Investment Pools*, the District reports all investments at fair value, except for "money market investments" and "2a7-like pools." Money market investments, which are short-term highly liquid debt instruments that may include U.S. Treasury and agency obligations, are reported at amortized costs. Investment positions in external investment pools that are operated in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940, such as TexPool, are reported using the pools' share price.

The District has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act, Chapter 2256, Texas Governmental Code. In summary, the District is authorized to invest in the following:

- Direct obligations of the U.S. Government
- Fully collateralized certificates of deposit and money market accounts
- Statewide investment pools and commercial paper

2. Receivables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the year are referred to as either "interfund receivables/payables" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds" in the fund financial statement.

Advances between funds are offset by a fund balance reserve account in an applicable governmental fund to indicate that they are not available for appropriation and are not expendable, available financial resources.

All trade receivables are shown net of an allowance for uncollectibles.

Property Taxes

All taxes due to the District on real or personal property are payable at the Office of the Tax Assessor-Collector and may be paid at any time after the tax rolls for the year have been completed

WILLIS INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended August 31, 2012

and approved, which is no later than October 1. Taxes are due by January 31, and all taxes not paid prior to this date are deemed delinquent and are subject to such penalty and interest.

Property taxes attach as an enforceable lien on property as of January 1 each year. Taxes are levied on October 1 and are payable prior to the next February 1. District property tax revenues are recognized when collected.

3. Prepaid Items

Certain payments to vendors reflect costs applicable to the future accounting period (prepaid expenditures) are recognized as expenditures when utilized.

4. Capital Assets

Capital assets, which include land, buildings, furniture, and equipment, are reported in the applicable governmental activities columns 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. Major outlays for capital assets and improvements are capitalized as projects are constructed.

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.

Property, plant, and equipment of the primary government are depreciated using the straight-line method over the following estimated useful years:

<u>Asset Description</u>	<u>Estimated Useful Life</u>
Buildings and improvements	20 to 40 years
Vehicles	10 years
Equipment	8 to 20 years

5. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities Statement of Net Assets. The long-term debt consists primarily of bonds payable, notes payable, and accrued compensated absences.

Long-term debt for governmental funds is not reported as a liability in the fund financial statements until due. The debt proceeds are reported as other financing sources, net of the applicable premium or discount and payment of principal and interest reported as expenditures. In the governmental fund types, issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures. However, claims and judgments and compensated absences paid from governmental funds are reported as a liability in the fund financial statements only for the portion expected to be financed from expendable, available financial resources.

WILLIS INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended August 31, 2012

The property tax rate is allocated each year between the general and debt service funds. The full amount estimated to be required for debt service on general obligation debt is provided by the tax along with the interest earned in the debt service fund.

6. Fund Balances – Governmental Funds

In the fund financial statements, fund balances in governmental funds are classified as follows:

Nonspendable – Represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaid items) or legally required to remain intact (such as principal of a permanent fund).

Restricted – Represents amounts that are constrained by external parties, constitutional provisions, or enabling legislation.

Committed – Represents amounts that can only be used for a specific purpose because of a formal action by the Board. Committed amounts cannot be used for any other purpose unless the Board removes those constraints by taking the same type of formal action. Commitments are approved through the adoption and amendment of the District's budget or a formal resolution stating the commitment. The commitment must be made prior to year end.

Assigned – Represents amounts which the District intends to use for a specific purpose, but that do not meet the criteria to be classified as restricted or committed. Intent may be stipulated by the Board or by an official or body to which the Board delegates the authority. The Board has retained this authority. Specific amounts that are not restricted or committed in a special revenue, capital projects, debt service, or permanent fund are assigned for purposes in accordance with the nature of their fund type or the fund's primary purpose. Assignments within the general fund convey that the intended use of those amounts is for a specific purpose that is narrower than the general purposes of the District itself. Assignments can be made at any time.

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

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

7. Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

WILLIS INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended August 31, 2012

8. Data Control Codes

The data control codes refer to the account code structure prescribed by TEA in the Resource Guide. The TEA requires school districts to display these codes in the financial statements filed with the TEA in order to ensure accuracy in building a statewide database for policy development and funding plans.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP). The original budget is adopted by the District prior to the beginning of the year. The legal level of control is the function code stated in the approved budget. Appropriations lapse at the end of the year, excluding capital project budgets. Supplemental budget appropriations were made for the year.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

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 may not be returned to it. The District's investment policy requires funds on deposit at the depository bank to be collateralized. As of August 31, 2012, checking and time deposits were entirely insured or collateralized with securities as provided by state laws and regulations and FDIC insurance.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District has invested \$27,112,269 in investment pools at year end, which included Lone Star, TexSTAR, and TexPool.

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

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

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

WILLIS INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended August 31, 2012

B. Capital Assets

A summary of changes in capital assets for governmental activities at year end is as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>(Decreases)</u>	<u>Ending Balances</u>
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 3,678,425	\$ -	\$ -	\$ 3,678,425
Total capital assets not being depreciated	<u>3,678,425</u>	<u>-</u>	<u>-</u>	<u>3,678,425</u>
Other capital assets:				
Buildings and improvements	111,326,052	217,652	-	111,543,704
Equipment	1,852,838	291,195	-	2,144,033
Vehicles	5,719,265	1,193,300	-	6,912,565
Total other capital assets	<u>118,898,155</u>	<u>1,702,147</u>	<u>-</u>	<u>120,600,302</u>
Less accumulated depreciation for:				
Buildings and improvements	(29,972,562)	(2,805,730)	-	(32,778,292)
Equipment	(874,364)	(154,304)	-	(1,028,668)
Vehicles	(3,532,404)	(391,510)	-	(3,923,914)
Total accumulated depreciation	<u>(34,379,330)</u>	<u>(3,351,544)</u>	<u>-</u>	<u>(37,730,874)</u>
Other capital assets, net	84,518,825	(1,649,397)	-	82,869,428
Totals	<u>\$ 88,197,250</u>	<u>\$ (1,649,397)</u>	<u>\$ -</u>	<u>\$ 86,547,853</u>

Depreciation was charged to governmental functions as follows:

11	Instruction	\$ 1,547,079
12	Instructional resources & media services	92,220
23	School leadership	357,189
31	Guidance, counseling & evaluation services	7,043
33	Health services	13,650
34	Student (pupil) transportation	464,656
35	Food service	140,690
36	Cocurricular/extracurricular activities	567,215
41	General administration	5,195
51	Plant maintenance and operations	94,245
52	Security and monitoring	12,839
53	Data processing services	49,523
	Total Depreciation Expenses	<u>\$ 3,351,544</u>

WILLIS INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended August 31, 2012

C. Long-Term Debt

The following is a summary of changes in the District's total governmental long-term liabilities for the year. In general, the District uses the general and debt service funds to liquidate governmental long-term liabilities.

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due within One Year
Governmental Activities:					
Bonds payables:					
Series 1998	\$ 4,335,076	\$ -	\$ -	\$ 4,335,076	\$ -
Series 2001	3,053,850	-	(1,669,972)	1,383,878	-
Series 2001A	425,000	-	(105,000)	320,000	75,000
Series 2002	925,000	-	(390,000)	535,000	30,000
Series 2005	18,880,000	-	(1,775,000)	17,105,000	2,050,000
Series 2007	18,195,000	-	(5,665,000)	12,530,000	610,000
Series 2008	13,920,000	-	(610,000)	13,310,000	630,000
Series 2008A	6,775,000	-	(235,000)	6,540,000	240,000
Series 2010	13,365,000	-	-	13,365,000	470,000
Series 2012	-	6,160,000	-	6,160,000	55,000
Accreted interest on CAB	7,059,869	489,576	(9,377)	7,540,068	-
	<u>86,933,795</u>	<u>6,649,576</u>	<u>(10,459,349)</u>	<u>83,124,022</u>	<u>4,160,000</u>
Other Liabilities:					
Other debt items	(498,091)	(913,139)	99,191	(1,312,039)	-
Premiums	651,462	1,042,460	(104,979)	1,588,943	-
Total Governmental Activities	<u>\$ 87,087,166</u>	<u>\$ 6,778,897</u>	<u>\$ (10,465,137)</u>	<u>\$ 83,400,926</u>	<u>\$ 4,160,000</u>
Long-term liabilities due in more than one year				<u>\$ 79,240,926</u>	

Long-term liabilities applicable to the District's governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities in the governmental funds. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. Interest rates on bonds range from 2.0 percent to 8.7 percent.

WILLIS INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended August 31, 2012

The annual requirements to amortize debt issues outstanding at year end were as follows:

Year Ended August 31	Principal	Interest	Total Requirements
2013	\$ 4,160,000	\$ 3,083,982	\$ 7,243,982
2014	4,895,000	3,537,399	8,432,399
2015	5,306,660	3,130,967	8,437,627
2016	5,250,020	3,180,061	8,430,081
2017	3,404,507	4,798,779	8,203,286
2018	4,041,065	4,136,149	8,177,214
2019	4,353,720	3,772,043	8,125,763
2020	4,508,994	3,438,725	7,947,719
2021	4,671,693	3,293,785	7,965,478
2022	4,842,295	3,333,970	8,176,265
2023	4,860,000	1,249,074	6,109,074
2024	5,090,000	1,037,133	6,127,133
2025	5,320,000	809,085	6,129,085
2026	3,385,000	609,516	3,994,516
2027	2,530,000	462,150	2,992,150
2028	2,650,000	341,844	2,991,844
2029	1,700,000	231,997	1,931,997
2030	1,765,000	143,497	1,908,497
2031	1,835,000	80,975	1,915,975
2032	495,000	38,375	533,375
2033	520,000	13,000	533,000
	<u>\$ 75,583,954</u>	<u>\$ 40,722,506</u>	<u>\$ 116,306,460</u>

Advance Refunding

The District issued \$6,160,000 of unlimited tax refunding bonds to defease certain portions of the unlimited tax bonds, series 2001 in the amount of \$1,082,790 and certain portions of the unlimited tax bonds, series 2007 in the amount of \$5,080,000 by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. The reacquisition price exceeded the net carrying amount of the old debt by \$913,139. This amount is being netted against the new debt and amortized over the remaining life of the new debt, which is shorter than the life of the refunded debt. This advance refunding was undertaken to reduce total debt service payments over the next fifteen years by \$990,466 and resulted in an economic gain of \$962,990.

WILLIS INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended August 31, 2012

D. Interfund Transactions

The interfund balances and transfers were as follows:

	<u>Due To Other Funds</u>
General Fund	
Special revenue	\$ 1,366,071
Enterprise	242,760
Internal service	1,343,565
Total General Fund	<u>2,952,396</u>
Debt Service Fund	
General Fund	48,108
Total Debt Service Fund	<u>48,108</u>
Grand Total	<u><u>\$ 3,000,504</u></u>

Amounts recorded as due to/from are considered to be temporary loans and will be repaid during the following year.

E. Fund Equity

Change in Beginning Net Assets/Restatement

The beginning net assets for total governmental activities has been changed due to the overstatement of prior year accumulated depreciation.

	<u>Governmental Activities Net Assets</u>
Prior year ending net assets as reported	\$ 22,909,098
Overstated accumulated depreciation	1,530,869
Current year beginning net assets as reported	<u><u>\$ 24,439,967</u></u>

IV. OTHER INFORMATION

A. 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; and natural disasters for which the District purchases commercial insurance. The District has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts for the past three years.

B. Contingent Liabilities

Amounts received or receivable from granting agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount of expenditures

WILLIS INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended August 31, 2012

which may be disallowed by the grantor cannot be determined at this time although the District expects such amounts, if any, to be immaterial.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of payouts, and other economic and social factors. No claim liabilities are reported at year end.

The Tax Reform Act of 1986 instituted certain arbitrage restrictions consisting of complex regulations with respect to issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the Internal Revenue Service at least every five years for applicable bond issues. Accordingly, there is the risk that if such calculations are not performed, or not performed correctly, it could result in a substantial liability to the District. Although the District does not anticipate that it will have any material arbitrage liability, it periodically engages an arbitrage consultant to perform the calculations in accordance with IRS rules and regulations.

C. Pension Plan

Teacher Retirement System

Plan Description

The District contributes to the Teacher Retirement System of Texas (the "TRS"), a public employee retirement system. It is a cost-sharing, multiple-employer defined benefit pension plan with one exception: all risks and costs are not shared by the District, but are the liability of the State of Texas. The TRS provides service retirement and disability retirement benefits, and death benefits to plan members and beneficiaries. The TRS operates primarily under the provisions of the Texas Constitution and Texas Government Code, Title 8, Subtitle C. The Texas legislature has the authority to establish or amend benefit provisions. The TRS issues a publicly available financial report that includes financial statements and Required Supplementary Information for the District. That report may be obtained by writing the Teacher Retirement System of Texas, 1000 Red River Street, Austin, TX 78701-2698 or by calling (800) 223-8778.

Funding Policy

Under provisions in State law, plan members are required to contribute 6.4 percent of their annual covered salary and the State of Texas contributes an amount equal to 6.58 percent of the District's covered payroll. The District's employees' contributions to the TRS for the years ending August 31, 2012, 2011, and 2010 were \$2,053,803, \$2,143,310 and \$2,105,325, respectively, and were equal to the required contributions for each year. Other contributions made from federal and private grants and from the District for salaries above the statutory minimum for the years ending August 31, 2012, 2011, 2010 were \$377,395, \$397,290, and \$369,129, respectively, and were equal to the required contributions for each year. The amount contributed by the State on behalf of the District was \$1,965,111 for the year ending August 31, 2012.

WILLIS INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended August 31, 2012

D. Retiree Health Care Plan

Plan Description

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

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. The State of Texas and active public school employee contribution rates were 1.0 percent and 0.65 percent of public school payroll, respectively, with school districts contributing a percentage of payroll set at 0.55 percent for fiscal years 2010 and 2009. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25 percent or greater than 0.75 percent of the salary of each active employee of the public school. For the years ended August 31, 2012, 2011, and 2010, the State's contributions to TRS-Care were \$31,997, \$21,859, and \$18,832, respectively, the active member contributions were \$208,590, \$217,680, and \$213,822, respectively, and the District's contributions were \$176,499, \$184,191, and \$180,926, respectively, which equaled the required contributions each year.

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for TRS-Care to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. For the fiscal years ended August 31, 2012, 2011, and 2010, the subsidy payments received by TRS-Care on behalf of the District were \$82,556, \$77,420, and \$82,385, respectively.

The Early Retiree Reinsurance Program (ERRP) is a provision of the Patient Protection and Affordable Care Act (PPACA) and provides reimbursement to plan sponsors for a portion of the cost of providing health benefits to retirees between the ages of 55-64 and their covered dependents regardless of age. An early retiree is defined as a plan participant ages 55-64 who is not eligible for Medicare and is not covered by an active employee of the plan sponsor. This temporary program is available to help employers continue to provide coverage to early retirees. Funds were allocated to reporting agencies using the same basis as the Medicare, Part D-On Behalf Payments. For the fiscal year ended August 31, 2012, payments received by TRS-Care on behalf of the District were \$78,071.

WILLIS INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended August 31, 2012

E. Employee Health Care Coverage

During the year ended August 31, 2012, employees of the District were covered by a health insurance plan (the "Plan"). The District paid premiums of \$255 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to a licensed insurer. The Plan was authorized by Article 3.51-2, Texas Insurance Code and was documented by contractual agreement.

F. Workers' Compensation Insurance

During the year ended August 31, 2012, 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, 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 and their injured employees. The District participates in the Fund's reimbursable aggregate deductible program. As such, the member is responsible for a certain amount of claims liability as outlined on the member's contribution and coverage summary document. After the member's deductible has been met, the Fund is responsible for additional claims. 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 \$1.5 million. The Fund uses the services of an independent actuary to determine reserve adequacy and fully funds those reserves. For the year ended August 31, 2012, the Fund anticipates no additional liability to members beyond their contractual obligations for payment of contributions and reimbursable aggregate deductibles.

The Fund engages the services of independent auditors to conduct a financial audit after the close of each plan 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, 2012, are available at the TASB offices and have been filed with the Texas Department of Insurance in Austin.

G. Unemployment Compensation

During the year ended August 31, 2012, the District provided unemployment compensation coverage to its employees through participation in the TASB 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.

The Fund engages the services of an independent auditor to conduct a financial audit after the close of each plan year on August 31. The audit is accepted by the Funds' Board of Trustees in February

WILLIS INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended August 31, 2012

of the following year. The Fund's audited financial statements as of August 31, 2012, are available at the TASB offices and have been filed with the Texas Department of Insurance in Austin.

H. Shared Services Arrangements

The District participates in the following shared services arrangements:

State Supplementary Visually Impaired Fund

The District participates in a shared services arrangement for the education of students with a visual impairment funded under State Supplemental Visually Impaired Funds, TEC Section 30.002, 19 TAC 89.238(6) with 24 other districts and shared service arrangements and the Education Service Center, Region VI. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, Education Service Center, Region VI, nor does the District have an equity interest in the fiscal agent. The fiscal agent is neither accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to the District. The fiscal agent is responsible for part of the financial activities of the shared services arrangement.

ESEA, Title II, Part D – Enhancing Education Through Technology

The District participates in a shared services arrangement to be used to improve student academic achievement through the use of technology in elementary and secondary schools. The shared services arrangement is funded under ESEA, Title II, Part D – Enhancing Education Through Technology. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, Education Service Center – Region VI, nor does the District have a new equity interest in the fiscal agent. The fiscal agent is neither accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to the District. The fiscal agent is responsible for part of the financial activities of the shared services arrangement.

ESEA, Title IV – Safe and Drug-free School and Communities Act

The District participates in a shared services arrangement to be used to develop age-appropriate comprehensive violence and drug/alcohol education prevention program. The shared services arrangement is funded under ESEA, Title IV – Safe and Drug-free School and Communities Act. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, Education Service Center – Region VI, nor does the District have a new equity interest in the fiscal agent. The fiscal agent is neither accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to the District. The fiscal agent is responsible for part of the financial activities of the shared services arrangement.

REQUIRED SUPPLEMENTARY INFORMATION

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WILLIS INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET TO ACTUAL -
GENERAL FUND - EXHIBIT G-1
For the Year Ended August 31, 2012

Data Control Codes		Budgeted Amounts			Variance With Final Budget Positive (Negative)
		Original	Final	Actual	
	Revenues				
5700	Local and intermediate sources	\$ 22,018,775	\$ 22,073,218	\$ 22,341,113	\$ 267,895
5800	State program revenues	22,091,960	22,088,499	22,826,274	737,775
5900	Federal program revenues	79,977	79,977	69,343	(10,634)
5020	Total Revenues	44,190,712	44,241,694	45,236,730	995,036
	Expenditures				
0011	Instruction	25,119,505	24,753,615	24,572,044	181,571
0012	Instructional resources and media services	428,758	364,958	326,377	38,581
0013	Curriculum and instructional staff development	698,466	703,466	539,627	163,839
0021	Instructional leadership	132,099	134,099	129,519	4,580
0023	School leadership	2,897,739	2,772,740	2,746,332	26,408
0031	Guidance, counseling and evaluation services	1,547,084	1,448,734	1,350,194	98,540
0032	Social work services	111,707	111,857	101,233	10,624
0033	Health services	492,153	499,153	490,910	8,243
0034	Student transportation	2,852,682	3,213,932	3,078,928	135,004
0035	Food Services	-	15,000	14,784	216
0036	Extracurricular activities	1,270,079	1,272,079	1,226,688	45,391
0041	General administration	1,432,187	1,443,187	1,408,433	34,754
0051	Facilities maintenance and operations	6,235,879	6,684,957	6,684,957	-
0052	Security and monitoring services	486,703	778,231	724,187	54,044
0053	Data processing services	217,113	278,613	240,105	38,508
0061	Community services	-	600	572	28
	Intergovernmental				
0095	Payments to JJAEP	35,000	35,000	9,600	25,400
0099	Other intergovernmental charges	233,558	233,558	206,220	27,338
6030	Total Expenditures	44,190,712	44,743,779	43,850,710	893,069
1100	Excess of Revenues Over Expenditures	-	(502,085)	1,386,020	1,888,105
1200	Net Change in Fund Balance	-	(502,085)	616,020	1,118,105
0100	Beginning fund balance	15,893,333	15,893,333	15,893,333	-
3000	Ending Fund Balances	\$ 15,893,333	\$ 15,391,248	\$ 16,509,353	\$ 1,118,105

Notes to Required Supplementary Information:

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

***OTHER SUPPLEMENTARY
INFORMATION***

WILLIS INDEPENDENT SCHOOL DISTRICT

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS - EXHIBIT H-1 (Page 1 of 3)

August 31, 2012

		211	224	225	226
Data Control Codes		ESEA Title 1 Part A	IDEA B Formula	IDEA B Preschool Grant	IDEA B Discretionary Grant
	<u>Assets</u>				
1110	Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -
1120	Current investments	-	-	-	-
1240	Due from other governments	-	63,025	-	-
1260	Due from other funds	66,416	-	-	-
1000	Total Assets	<u>\$ 66,416</u>	<u>\$ 63,025</u>	<u>\$ -</u>	<u>\$ -</u>
	<u>Liabilities</u>				
2110	Accounts payable	\$ -	\$ -	\$ -	\$ -
2160	Accrued wages payable	66,416	63,025	-	-
2300	Deferred revenue	-	-	-	-
2000	Total Liabilities	<u>66,416</u>	<u>63,025</u>	<u>-</u>	<u>-</u>
	<u>Fund Balances</u>				
3450	Restricted for grant restrictions	-	-	-	-
3000	Total Fund Balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
4000	Total Liabilities and Fund Balances	<u>\$ 66,416</u>	<u>\$ 63,025</u>	<u>\$ -</u>	<u>\$ -</u>

240 National School Breakfast and Lunch Program	243 Career and Technical Technical Preparation	244 Career and Technical Basic Grant	255 ESEA, Title II, Part A Teacher and Principal Trn.	263 Title III, Part A - Eng. Language Acq. and Lang. Enh.	272 Medicaid Admin Claim Program
\$ 63,394	\$ 3,793	\$ -	\$ -	\$ -	\$ -
649,568	-	-	-	-	-
65,573	-	-	12,389	1,035	-
46,094	-	-	-	-	113,966
<u>\$ 824,629</u>	<u>\$ 3,793</u>	<u>\$ -</u>	<u>\$ 12,389</u>	<u>\$ 1,035</u>	<u>\$ 113,966</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
81,128	-	-	12,389	1,035	-
-	3,793	-	-	-	-
<u>81,128</u>	<u>3,793</u>	<u>-</u>	<u>12,389</u>	<u>1,035</u>	<u>-</u>
743,501	-	-	-	-	113,966
<u>743,501</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>113,966</u>
<u>\$ 824,629</u>	<u>\$ 3,793</u>	<u>\$ -</u>	<u>\$ 12,389</u>	<u>\$ 1,035</u>	<u>\$ 113,966</u>

WILLIS INDEPENDENT SCHOOL DISTRICT

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS - EXHIBIT H-1 (Page 2 of 3)

August 31, 2012

Data Control Codes		283 IDEA, Part B Formula ARRA	285 ESEA Title I Part A Improving Basic Program	287 Education Jobs Fund	288 Federally Funded Special Revenue
	<u>Assets</u>				
1110	Cash and cash equivalents	\$ -	\$ -	\$ -	\$ 136
1120	Current investments	-	-	-	-
1240	Due from other governments	-	-	-	-
1260	Due from other funds	-	-	-	-
1000	Total Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 136</u>
	<u>Liabilities</u>				
2110	Accounts payable	\$ -	\$ -	\$ -	\$ -
2160	Accrued wages payable	-	-	-	-
2300	Deferred revenue	-	-	-	136
2000	Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>136</u>
	<u>Fund Balances</u>				
3450	Restricted for grant restrictions	-	-	-	-
3000	Total Fund Balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
4000	Total Liabilities and Fund Balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 136</u>

289	385	393	397	410	411
Medicare Reimb.	State Supplemental Vision Impaired	Texas Successful Schools	Advanced Placement Initiatives	State Textbook Fund	Technology Allotment
\$ -	\$ -	\$ 725	\$ -	\$ 3,234	\$ -
-	-	-	-	-	-
-	-	-	-	-	-
1,126,253	-	-	13,342	-	-
<u>\$ 1,126,253</u>	<u>\$ -</u>	<u>\$ 725</u>	<u>\$ 13,342</u>	<u>\$ 3,234</u>	<u>\$ -</u>
\$ 4,027	\$ -	\$ -	\$ -	\$ 3,234	\$ -
8,252	-	-	-	-	-
-	-	-	-	-	-
<u>12,279</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,234</u>	<u>-</u>
1,113,974	-	725	13,342	-	-
<u>1,113,974</u>	<u>-</u>	<u>725</u>	<u>13,342</u>	<u>-</u>	<u>-</u>
<u>\$ 1,126,253</u>	<u>\$ -</u>	<u>\$ 725</u>	<u>\$ 13,342</u>	<u>\$ 3,234</u>	<u>\$ -</u>

WILLIS INDEPENDENT SCHOOL DISTRICT

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS - EXHIBIT H-1 (Page 3 of 3)

August 31, 2012

Data Control Codes		423	429	495	499
		LEP Student Succ. Initiative	State Funded Special Revenue	State Funded Special Revenue	State Funded Special Revenue
	<u>Assets</u>				
1110	Cash and cash equivalents	\$ 230	\$ 83	\$ 25,000	\$ -
1120	Current investments	-	-	-	-
1240	Due from other governments	-	-	-	-
1260	Due from other funds	-	-	-	-
1000	Total Assets	<u>\$ 230</u>	<u>\$ 83</u>	<u>\$ 25,000</u>	<u>\$ -</u>
	<u>Liabilities</u>				
2110	Accounts payable	\$ -	\$ -	\$ -	\$ -
2160	Accrued wages payable	-	-	-	-
2300	Deferred revenue	-	-	-	-
2000	Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>Fund Balances</u>				
3450	Restricted for grant restrictions	<u>230</u>	<u>83</u>	<u>25,000</u>	<u>-</u>
3000	Total Fund Balances	<u>230</u>	<u>83</u>	<u>25,000</u>	<u>-</u>
4000	Total Liabilities and Fund Balances	<u>\$ 230</u>	<u>\$ 83</u>	<u>\$ 25,000</u>	<u>\$ -</u>

699

Capital Projects		Total Nonmajor Governmental Funds	
\$	-	\$	96,595
	-		649,568
	-		142,022
	-		1,366,071
<u>\$</u>	<u>-</u>	<u>\$</u>	<u>2,254,256</u>
\$	-	\$	7,261
	-		232,245
	-		3,929
<u></u>	<u>-</u>	<u></u>	<u>243,435</u>
	-		2,010,821
<u></u>	<u>-</u>	<u></u>	<u>2,010,821</u>
<u>\$</u>	<u>-</u>	<u>\$</u>	<u>2,254,256</u>

WILLIS INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS - EXHIBIT H-2 (Page 1 of 3)
For the Year Ended August 31, 2012

		211	224	225	226
Data Control Codes		ESEA Title 1 Part A	IDEA B Formula	IDEA B Preschool Grant	IDEA B Discretionary Grant
<u>Revenues</u>					
5700	Local, intermediate, and out-of-state	\$ -	\$ -	\$ -	\$ -
5800	State program revenues	-	-	-	-
5900	Federal program revenues	915,077	1,006,621	25,395	16,440
5020	Total Revenues	915,077	1,006,621	25,395	16,440
<u>Expenditures</u>					
Current:					
0011	Instruction	639,266	772,693	25,395	13,500
0012	Instruction resources				
0012	and media services	206,284	-	-	-
0013	Curriculum and instructional				
0013	staff development	40,061	630	-	-
0021	Instructional leadership	-	65,943	-	-
0023	School leadership	14,976	-	-	-
0031	Guidance, counseling, and				
0031	evaluation services	-	152,265	-	-
0032	Social work services	-	-	-	-
0033	Health services	-	-	-	-
0034	Student transportation	-	1,503	-	2,940
0035	Food services	-	-	-	-
0036	Extracurricular activities	-	88	-	-
0051	Plant maintenance and operations	-	-	-	-
0061	Community services	14,490	13,499	-	-
6030	Total Expenditures	915,077	1,006,621	25,395	16,440
8949	Other (uses)	-	-	-	-
1200	Net Change in Fund Balances	-	-	-	-
0100	Beginning fund balances	-	-	-	-
3000	Ending Fund Balances	\$ -	\$ -	\$ -	\$ -

240 National School Breakfast and Lunch Program	243 Career and Technical Technical Preparation	244 Career and Technical Basic Grant	255 ESEA, Title II, Part A Teacher and Principal Trn.	263 Title III, Part A - Eng. Language Acq. and Lang. Enh.	272 Medicaid Admin Claim Program
\$ 1,063,973	\$ -	\$ -	\$ -	\$ -	\$ -
21,782	-	-	-	-	-
2,632,500	-	69,021	161,623	70,935	31,282
3,718,255	-	69,021	161,623	70,935	31,282
-	-	63,449	118,833	38,873	-
-	-	-	-	-	-
-	-	5,572	37,593	29,489	-
-	-	-	-	-	-
-	-	-	5,197	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
3,553,002	-	-	-	-	-
-	-	-	-	-	-
120,000	-	-	-	-	-
-	-	-	-	2,573	-
3,673,002	-	69,021	161,623	70,935	-
-	-	-	-	-	-
45,253	-	-	-	-	31,282
698,248	-	-	-	-	82,684
\$ 743,501	\$ -	\$ -	\$ -	\$ -	\$ 113,966

WILLIS INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS - EXHIBIT H-2 (Page 2 of 3)
For the Year Ended August 31, 2012

Data Control Codes		283	285	287	288
		IDEA, Part B Formula ARRA	ESEA Title I Part A Improving Basic Program	Education Jobs Fund	Federally Funded Special Revenue
	<u>Revenues</u>				
5700	Local, intermediate, and out-of-state	\$ -	\$ -	\$ -	\$ -
5800	State program revenues	-	-	-	-
5900	Federal program revenues	58,918	3,839	1,049,329	-
5020	Total Revenues	58,918	3,839	1,049,329	-
	<u>Expenditures</u>				
	Current:				
0011	Instruction	44,107	3,839	591,411	-
0012	Instruction resources				
0012	and media services	-	-	173,997	-
0013	Curriculum and instructional				
0013	staff development	2,059	-	-	-
0021	Instructional leadership	-	-	-	-
0023	School leadership	11,087	-	87,870	-
0031	Guidance, counseling, and				
0031	evaluation services	-	-	196,051	-
0032	Social work services	-	-	-	-
0033	Health services	-	-	-	-
0034	Student transportation	-	-	-	-
0035	Food services	-	-	-	-
0036	Extracurricular activities	-	-	-	-
0051	Plant maintenance and operations	-	-	-	-
0061	Community services	1,665	-	-	-
6030	Total Expenditures	58,918	3,839	1,049,329	-
8949	Other (uses)	-	-	-	-
1200	Net Change in Fund Balances	-	-	-	-
0100	Beginning fund balances	-	-	-	-
3000	Ending Fund Balances	\$ -	\$ -	\$ -	\$ -

289	385	393	397	410	411
Medicare Reimb.	State Supplemental Vision Impaired	Texas Successful Schools	Advanced Placement Initiatives	State Textbook Fund	Technology Allotment
\$ 18	\$ -	\$ -	\$ -	\$ -	\$ -
-	4,225	-	1,257	12,761	-
433,079	-	-	-	-	-
433,097	4,225	-	1,257	12,761	-
300,907	4,225	-	-	12,761	60,561
-	-	-	-	-	-
6,861	-	-	-	-	-
9,881	-	-	-	-	-
2,518	-	-	-	-	-
38,141	-	-	-	-	-
1,020	-	-	-	-	-
83,377	-	-	-	-	-
28,419	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
28	-	-	-	-	-
11,536	-	-	-	-	-
482,688	4,225	-	-	12,761	60,561
-	-	-	-	-	-
(49,591)	-	-	1,257	-	(60,561)
1,163,565	-	725	12,085	-	60,561
\$ 1,113,974	\$ -	\$ 725	\$ 13,342	\$ -	\$ -

WILLIS INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS - EXHIBIT H-2 (Page 3 of 3)
For the Year Ended August 31, 2012

		423	429	495	499
Data Control Codes		LEP Student Succ. Initiative	State Funded Special Revenue	State Funded Special Revenue	State Funded Special Revenue
<u>Revenues</u>					
5700	Local, intermediate, and out-of-state	\$ -	\$ -	\$ 25,000	\$ -
5800	State program revenues	-	37	-	-
5900	Federal program revenues	-	-	-	-
5020	Total Revenues	-	37	25,000	-
<u>Expenditures</u>					
Current:					
0011	Instruction	-	-	-	-
0012	Instruction resources				
0012	and media services	-	-	-	-
0013	Curriculum and instructional				
0013	staff development	-	-	-	-
0021	Instructional leadership	-	-	-	-
0023	School leadership	-	-	-	-
0031	Guidance, counseling, and				
0031	evaluation services	-	-	-	-
0032	Social work services	-	-	-	-
0033	Health services	-	-	-	-
0034	Student transportation	-	-	-	-
0035	Food services	-	-	-	-
0036	Extracurricular activities	-	-	-	-
0051	Plant maintenance and operations	-	-	-	-
0061	Community services	-	-	-	13
6030	Total Expenditures	-	-	-	13
8949	Other (uses)	-	-	-	-
1200	Net Change in Fund Balances	-	37	25,000	(13)
0100	Beginning fund balances	230	46	-	13
3000	Ending Fund Balances	\$ 230	\$ 83	\$ 25,000	\$ -

699		Total Nonmajor Governmental Funds	
Capital Projects			
\$	-	\$	1,088,991
	-		40,062
	-		6,474,059
	-		7,603,112
	-		2,689,820
	-		380,281
	-		122,265
	-		75,824
	-		121,648
	-		386,457
	-		1,020
	-		83,377
	-		32,862
	-		3,553,002
	-		88
	-		120,028
	-		43,776
	-		7,610,448
	(197,609)		(197,609)
	(197,609)		(204,945)
	197,609		2,215,766
\$	-	\$	2,010,821

WILLIS INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DELINQUENT TAXES RECEIVABLE - EXHIBIT J-1
For the Year Ended August 31, 2012

Last Ten Years	1		2		3		10
	Tax Rates				Net Assessed/ Appraised Value For School Tax Purposes		Beginning Balance 8/31/11
	Maintenance		Debt Service				
2003 and prior	\$	Various	\$	Various	\$	Various	\$ 385,429
2004		1.4200		0.2900		1,103,811,752	66,568
2005		1.4600		0.2750		1,171,073,540	64,833
2006		1.4800		0.2550		1,289,843,686	76,272
2007		1.3520		0.2500		1,477,384,400	95,602
2008		1.0260		0.2800		1,702,594,002	107,002
2009		1.0400		0.3300		1,893,505,781	166,363
2010		1.0400		0.3300		1,989,547,518	341,370
2011		1.0400		0.3300		1,989,547,518	691,575
2012		1.0400		0.3300		2,081,955,401	-
1000 Totals							<u><u>\$ 1,995,014</u></u>

20	30	30a	40	50
Current Year's Total Levy	Maintenance Total Collected	Debt Service Total Collected	Entire Year's Adjustments	Ending Balance 8/31/12
\$ -	\$ 1,801	\$ 360	\$ (65,067)	\$ 318,201
-	1,281	262	(1,748)	63,277
-	2,769	522	(1,309)	60,233
-	4,946	852	(1,042)	69,432
-	7,748	1,433	(2,010)	84,411
-	12,831	3,502	(2,188)	88,481
-	31,913	10,126	5,289	129,613
-	100,364	31,846	13,877	223,037
-	207,430	65,819	(49,820)	368,506
<u>28,522,789</u>	<u>21,248,837</u>	<u>6,670,350</u>	<u>-</u>	<u>603,602</u>
<u>\$ 28,522,789</u>	<u>\$ 21,619,920</u>	<u>\$ 6,785,072</u>	<u>\$ (104,018)</u>	<u>\$ 2,008,793</u>

WILLIS INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES FOR COMPUTATION OF INDIRECT COSTS FOR 2013-2014

GENERAL AND SPECIAL REVENUE FUNDS - EXHIBIT J-2

For the Year Ended August 31, 2012

Account Number		(1) 702	(2) 703	(3) 701
		School Board	Tax Collection	Superintendent's Office
611X-6146	Payroll costs	\$ -	\$ -	\$ 271,721
6149	Fringe benefits (unused leave			
6149	not in functions 41 and 53)	-	-	11,968
6211	Legal services	55,177	-	-
6212	Audit services	-	-	-
6213	Tax appraisal/collection	-	206,220	-
6230	Education service centers	-	-	-
6240	Maintenance and repairs	-	-	-
6260	Rentals	-	-	3,208
6290	Miscellaneous contracts	2,686	-	-
6320	Textbooks and reading	-	-	185
63XX	Other supplies	1,835	-	1,856
6410	Travel, subsistence, and stipends	723	-	6,905
6420	Insurance and bonding	-	-	-
6490	Miscellaneous operating	2,544	-	2,635
6600	Capital outlay	-	-	3,003
Totals		<u>\$ 62,965</u>	<u>\$ 206,220</u>	<u>\$ 301,481</u>

Other Information:

Total expenditures for General and Special Revenue Funds (Exhibit C-3) (9) \$ 51,461,158

Less: Deductions of unallowed costs:

Fiscal Year

Total capital outlay (6600)	(10) \$	-	
Total debt and lease (6500)	(11)	-	
Plant maintenance (function 51, 6100-6400)	(12)	6,744,511	
Food (function 35, 6341 and 6499)	(13)	1,738,779	
Stipends (6413)	(14)	-	
Column (4) above - total indirect cost		944,659	
Subtotal			9,427,949
	Net Allowable Direct Cost		<u>\$ 42,033,209</u>

Note A: Function 53 \$ 240,105
Function 99 206,220

(4) 750	(5) 720	(6) (Other)	(7)
Indirect Cost	Direct Cost	Miscellaneous	Total
\$ 821,042	\$ -	\$ 133,516	\$ 1,226,279
700	-	-	12,668
-	-	-	55,177
34,000	-	-	34,000
-	-	-	206,220
10,000	-	2,750	12,750
-	-	81,993	81,993
5,751	-	4,647	13,606
24,950	-	15,051	42,687
-	-	900	1,085
13,831	-	77,105	94,627
150	-	7,107	14,885
22,192	-	-	22,192
12,043	-	10,845	28,067
-	-	5,519	8,522
<u>\$ 944,659</u>	<u>\$ -</u>	<u>\$ 339,433</u>	<u>\$ 1,854,758</u>

Cumulative

Total cost of buildings before depreciation (1520)	(15) \$	111,543,704
Historical cost of buildings over 50 years old	(16)	1,768,502
Amount of federal money in building cost (Net of #16)	(17)	-
Total cost of furniture and equipment before depreciation (1530 and 1540)	(18)	6,912,565
Historical cost of furniture and equipment over 16 years old	(19)	-
Amount of federal money in furniture and equipment (Net of #19)	(20)	-

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WILLIS INDEPENDENT SCHOOL DISTRICT
FUND BALANCE AND CASH FLOW CALCULATION SCHEDULE (UNAUDITED)
GENERAL FUND - EXHIBIT J-3
August 31, 2012

1. Total general fund fund balance at year end (Exhibit C-1 object 3000 for the general fund only)	<u>\$ 16,509,353</u>
2. Total non-spendable fund balance at year end (Exhibit C-1 objects 341x-344x for the general fund only)	1,955
3. Total restricted fund balance at year end (Exhibit C-1 objects 345x-349x for the general fund only)	-
4. Total committed fund balance at year end (Exhibit C-1 objects 351x-354x for the general fund only)	-
5. Total assigned fund balance at year end (Exhibit C-1 objects 355x-359x for the general fund only)	8,900,000
6. Estimated amount needed to cover fall cash flow deficits in general fund (net of borrowed funds and funds representing deferred revenues)	4,529,319
7. Estimate of two months' average cash disbursements during the regular school session	4,232,369
8. Estimate of delayed payments from state sources (58XX) including August payment delays	-
9. Estimate of underpayments from state sources equal to variance between Legislative Payment Estimate (LPE) and District Planning Estimate (DPE) or District's calculated earned state aid amount	-
10. Estimate of delayed payments from federal sources (59XX)	-
11. Estimate of expenditures to be reimbursed to general fund from capital projects fund (uses of general fund cash after bond referendum and prior to issuance of bonds)	<u>-</u>
12. General fund optimum fund balance and cash flow (2+3+4+5+6+7+8+9+10+11)	<u>17,663,643</u>
13. Excess or Deficit Unassigned General Fund Balance (1-12)	<u><u>\$ (1,154,290)</u></u>

The District's administration will continue to monitor the general fund balance in the following budgetary cycles to maintain a fund balance level within District policy and State guidelines.

WILLIS INDEPENDENT SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE
NATIONAL SCHOOL BREAKFAST AND LUNCH PROGRAM - EXHIBIT J-4
For the Year Ended August 31, 2012

Data Control Codes		Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
		Original	Final		
	<u>Revenues</u>				
5700	Local and intermediate sources	\$ 1,112,790	\$ 1,112,790	\$ 1,063,973	\$ (48,817)
5800	State program revenues	100,250	100,250	21,782	(78,468)
5900	Federal program revenues	2,699,077	2,699,077	2,632,500	(66,577)
5020	Total Revenues	3,912,117	3,912,117	3,718,255	(193,862)
	<u>Expenditures</u>				
	Current:				
0035	Food services	3,792,117	3,792,117	3,553,002	239,115
0051	Facilities Maintenance				
0051	and Operations	120,000	120,000	120,000	-
6030	Total Expenditures	3,912,117	3,912,117	3,673,002	239,115
1100	Excess of Revenues Over Expenditures	-	-	45,253	45,253
1200	Net Change in Fund Balances	-	-	45,253	45,253
0100	Beginning fund balances	698,248	698,248	698,248	-
3000	Ending Fund Balances	\$ 698,248	\$ 698,248	\$ 743,501	\$ 45,253

WILLIS INDEPENDENT SCHOOL DISTRICT

BUDGETARY COMPARISON SCHEDULE

DEBT SERVICE FUND - EXHIBIT J-5

For the Year Ended August 31, 2012

Data Control Codes		Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
		Original	Final		
	<u>Revenues</u>				
5700	Local and intermediate sources	\$ 6,951,440	\$ 6,951,440	\$ 6,854,728	\$ (96,712)
5800	State program revenues	209,964	209,964	39,159	(170,805)
5020	Total Revenues	7,161,404	7,161,404	6,893,887	(267,517)
	<u>Expenditures</u>				
	Current:				
0071	Debt service - principal	4,287,182	4,287,182	4,287,182	-
0072	Debt service - interest and fees	3,644,222	3,644,222	3,639,930	4,292
0073	Bond issuance costs	-	-	126,531	(126,531)
6030	Total Expenditures	7,931,404	7,931,404	8,053,643	(122,239)
1100	Excess (Deficiency) of Revenues (Under) Expenditures	(770,000)	(770,000)	(1,159,756)	(389,756)
	<u>Other Financing Sources (Uses)</u>				
7911	Sale of refunding bonds	-	-	6,160,000	6,160,000
7916	Premium on issuance of bonds	-	-	1,042,460	1,042,460
8949	Payment to refunding escrow agent	-	-	(7,075,929)	(7,075,929)
7915	Transfers in	770,000	770,000	967,609	197,609
7080	Total Other Financing Sources (Uses)	770,000	770,000	1,094,140	324,140
1200	Net Change in Fund Balances	-	-	(65,616)	(65,616)
0100	Beginning fund balances	465,544	465,544	465,544	-
3000	Ending Fund Balances	\$ 465,544	\$ 465,544	\$ 399,928	\$ (65,616)

FEDERAL AWARDS SECTION



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

To the Board of Trustees of the
Willis Independent School District:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Willis Independent School District (the "District"), as of and for the year ended August 31, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 30, 2012. 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.

Internal Control Over Financial Reporting

Management of the District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures 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 District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Trustees, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

BELT HARRIS PECHACEK, LLP

Belt Harris Pechacek, LLP
Certified Public Accountants
Houston, Texas
November 30, 2012



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH
OMB CIRCULAR A-133**

To the Board of Trustees of the
Willis Independent School District:

Compliance

We have audited the Willis Independent School District's (the "District") compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended August 31, 2012. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2012.

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Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Board of Trustees, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

 BELT HARRIS PECHACEK, LLP

Belt Harris Pechacek, LLP
Certified Public Accountants
Houston, Texas
November 30, 2012

WILLIS INDEPENDENT SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
For the Year Ended August 31, 2012

A. SUMMARY OF PRIOR YEAR AUDIT FINDINGS

None

WILLIS INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended August 31, 2012

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of Willis Independent School District.
2. Significant deficiencies in internal control were not disclosed by the audit of the basic financial statements.
3. No instances of noncompliance material to the financial statements were disclosed during the audit.
4. Significant deficiencies in internal control over major federal award programs were not disclosed by the audit.
5. The auditors' report on compliance for the major federal award programs expresses an unqualified opinion.
6. No audit findings relative to the major federal award programs for the District are reported in Part C of this schedule.
7. The programs included as major programs are:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.010 & 84.389	Title I Cluster
84.410	Education Jobs Fund
84.027, 84.173, & 84.391	Special Education Cluster
10.553, 10.555, & 10.559	Child Nutrition Cluster

8. The threshold for distinguishing Type A and B programs was \$300,000.
9. The District did qualify as a low-risk auditee.

B. FINDINGS – BASIC FINANCIAL STATEMENT AUDIT

None

C. FINDINGS – FEDERAL AUDIT AWARDS

None

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WILLIS INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - EXHIBIT K-1
For the Year Ended August 31, 2012

(1)	(2)	(2A)	(3)
Federal Grantor/Pass Through Grantor/Program or Cluster Title	FEDERAL CFDA NUMBER	ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES
U.S. DEPARTMENT OF EDUCATION			
Passed Through State Department of Education			
ESEA Title I, Part A*	84.010	12610101170904	\$ 915,077
IDEA B, Formula*	84.027	126600011709046600	1,006,621
Carl Perkins, Basic Grant	84.048	12420006170904	69,021
IDEA B, Preschool*	84.173	126610011709046610	41,835
Education Jobs Fund	84.410	11550101170904	1,049,329
Title III, English Language	84.365	12671001170904	70,935
Title II, Part A	84.367	12694501170904	161,623
ARRA, Title I, Part A*	84.389	10551001170904	3,839
ARRA IDEA B, Formula*	84.391	10554001170904	58,918
TOTAL U.S. DEPARTMENT OF EDUCATION			3,377,198
U.S. DEPARTMENT OF AGRICULTURE			
Passed Through State Department of Education			
School Breakfast Programs*	10.553	71401001	785,016
National School Lunch*	10.555	71301001	1,649,049
Summer Feeding Program*	10.559	170904	15,544
USDA Commodities	10.565	170904	182,891
TOTAL U.S. DEPARTMENT OF AGRICULTURE			2,632,500
U.S. DEPARTMENT OF HEALTH			
Medical Assistance Program	93.778	170904	31,282
Medicaid	93.778	170904	433,079
TOTAL U.S. DEPARTMENT OF HEALTH			464,361
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 6,474,059

* Indicates clustered program under OMB Circular A-133 Compliance Supplement

Federal Expenditures per SEFA	\$ 6,474,059
SHARS revenue not to be included in SEFA	69,343
Federal Expenditure per C-2	<u>\$ 6,543,402</u>

The accompanying notes are an integral part of this schedule.

WILLIS INDEPENDENT SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended August 31, 2012

NOTE 1: BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Willis Independent School District, and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the basic financial statements.

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WILLIS INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF REQUIRED RESPONSES TO

SELECTED SCHOOL FIRST INDICATORS - EXHIBIT L-1

For the Year Ended August 31, 2012

<u>Data Control Codes</u>		<u>Responses</u>
SF2	Were there any disclosures in the annual financial report and/or other sources of information concerning default on bonded indebtedness obligations?	No
SF4	Did the District receive a clean audit? - Was there an unqualified opinion in the annual financial report?	Yes
SF5	Did the annual financial report disclose any instances of material weaknesses in internal controls?	No
SF9	Was there any disclosure in the annual financial report of material noncompliance?	No
SF10	What was the total accumulated accretion on capital appreciation bonds included in the government-wide financial statements at fiscal year end?	<u>\$ 7,540,068</u>

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