



Waco Independent School District

Annual Financial Report

For the Fiscal Year Ended August 31, 2017

**Report Issued by the
Business and Financial Services Department**

Waco Independent School District
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Introductory Section

Certificate of Board

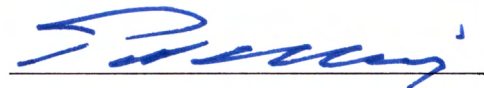
Waco Independent School District

McLennan County

161-914

We, the undersigned, certify that the attached annual financial and compliance reports of the above named independent school district were reviewed and approved for the year ended August 31, 2017 at a meeting of the Board of Trustees of such independent school district on the 25th day of January, 2018.


Norman Manning, Board Secretary


Pat Atkins, Board President

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

Financial Statements

Independent Auditor's Report

The Board of Trustees of
Waco Independent School District
501 Franklin Avenue
Waco, Texas 76712

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Waco Independent School District (the District), as of and for the year ended August 31, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Waco Independent School District, as of August 31, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Waco Independent School District's basic financial statements. The Supplementary Information, and Schedule of Required Responses to Selected School FIRST Indicators as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards, as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

The Schedule of Required Responses to Selected School FIRST Indicators has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

The Board of Trustees of
Waco Independent School District

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 24, 2018 on our consideration of Waco Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Waco Independent School District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Waco Independent School District's internal control over financial reporting and compliance.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Conroe, Texas
January 24, 2018

Management's Discussion and Analysis

Waco Independent School District
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended August 31, 2017

As management of the Waco Independent School District (the "District"), we offer readers of the financial statements this narrative overview of the financial activities of the District for the fiscal year ended August 31, 2017. This section of the financial report is intended to:

- ♦ Provide a concise overview of the District's financial activity comparing current year to prior year and identifying specific economic factors contributing to changes;
- ♦ Assist users of the financial statements in understanding the relationship of the results reported in the government-wide financial statements related to governmental activities and the results reported in the governmental funds financial statements;
- ♦ Help the reader focus on the District's financial condition as a whole, describing currently known facts, decisions, or conditions expected to impact the District's financial condition and the availability of fund resources for future years; and
- ♦ Identify significant variances between the adopted budget, final budget, and actual expenditures, discussing the impact of these variances on future liquidity.

We encourage readers to consider the information presented in this section in conjunction with the independent auditors' reports and the basic financial statements, including the notes to the financial statements. The information contained in these three sections of the report complement each other.

Financial Highlights

The following highlight changes in the District's financial position at August 31, 2017:

- ♦ On a government-wide basis, the assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$59,304,576. Of this amount, \$26,606,549 is unrestricted and may be used to meet ongoing obligations.
- ♦ Total net position for governmental activities decreased by \$1,054,845 from the net position of the prior year.
- ♦ The governmental funds reported combined ending fund balances of \$53,121,284, a decrease of \$870,386 compared with the prior year. Of the combined fund balances, \$39,165,626 or 73.7 percent is unassigned and available for the discrete purposes for which these funds are collected.
- ♦ The District's general fund had an ending fund balance of \$44,822,488 of which \$39,165,626 was unassigned. The unassigned amount represents 28.0 percent of its annual operating expenditures. The total fund balance decreased by \$1,094,753 from the prior year with the unassigned fund balance increasing by \$129,470, reflecting decreases in funds committed by the Board of Trustees for special projects, additions, renovations, major repairs, and capital expenditures for equipment.
- ♦ The ending fund balance for the National School Breakfast and Lunch Programs was \$2,251,264, an increase of \$522,811 over the prior year. This increase is a result of incomplete purchases for a vehicle and kitchen equipment. These items, totaling \$319,753 were received after August 31 and will be honored in the subsequent fiscal year.
- ♦ Fund balances restricted for debt service increased by \$7,461 to \$4,653,605. The General Fund transferred \$1,199,429 from maintenance and operations tax collections to cover debt service as a form of tax rate swap provided through the tax ratification election.

Waco Independent School District
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended August 31, 2017

Overview of the Financial Statements

This discussion and analysis serves as an overview of the financial statements. The basic financial statements consist of three components: the government-wide financial statements, the fund financial statements, and the related notes to the financial statements. The notes to the financial statement explain some of the information included in the statements and provide additional detail. This report also contains supplementary information in addition to the basic financial statements, including schedules required by the District's oversight agency, the Texas Education Agency (TEA). These components are illustrated below.

Annual Financial Report	Management's Discussion and Analysis			
	Government-Wide Financial Statements	Fund Financial Statements		
	Statement of Net Position	Governmental Funds Balance Sheet	Proprietary Funds Statement of Net Position	Fiduciary Funds Statement of Net Position
	Statement of Activities	Statement of Revenues, Expenditures, and Changes in Fund Balances	Statement of Revenues, Expenses, and Changes in Fund Net Position	Statement of Changes in Net Position
			Statement of Cash Flows	
	Notes to the Financial Statements			
	Required Supplementary Information and Supplemental Schedules Required by the TEA			

The basic financial statements include both government-wide and fund financial statements. These statements differ in scope, measurement focus, and basis of accounting, as well as in the information provided. The following chart illustrates these differences.

	Government-Wide Statements	Fund Financial Statements		
		Governmental	Proprietary	Fiduciary
Scope	Entire entity (except fiduciary funds)	The day-to-day operating activities of the District for basic services	The day-to-day operating activities for internal service funds	Instances in which the District administers resources on behalf of others
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual and current financial resources measurement focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus, except agency funds do not have measurement focus
Types of asset and liability information	All assets and liabilities, both financial and capital, short-term and long-term	Current assets and liabilities that come due during the year or soon thereafter; capital assets and long-term liabilities are not included	All assets and liabilities, both financial and capital, short-term and long-term	All assets held in a trustee or agency capacity for others and all liabilities
Type of inflow and outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during the year or soon thereafter; expenditures when goods or services have been received and the related liability is due and payable	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when the cash is received or paid

Waco Independent School District
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended August 31, 2017

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the District's financial position, in a manner similar to that of the private-sector. The focus of the statements is on the activities of the District as a whole. These statements present a longer-term view of the District's property, debt obligations, and other financial matters.

The *Statement of Net Position* includes all the District's assets, deferred outflows of resources, liabilities and deferred inflows of resources at year end, with the difference reported as *net position*. This statement consolidates current financial resources with capital assets and long-term obligations. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. To fully assess the overall health of the District, non-financial factors need to be considered as well, such as changes in the District's average daily attendance, property tax base, as well as the condition of school buildings and other facilities.

The *Statement of Activities* details how the District's net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Therefore, current year revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Revenues in the statement of activities are presented in three categories. The first two categories, those provided through user charges and those contributed by outside agencies through grants and contributions, indicate a cost-sharing of specific functional expenditures. The third category includes general purpose revenues such as those provided through property taxes or state formula grants. These revenues fund the general operations of the District.

Internal services are accounted for in a proprietary fund and are consolidated with governmental funds in the government-wide statements. Governmental activities also include a blended component unit within the reporting entity. Fiduciary funds are not included in the government-wide statements.

Fund Financial Statements

The fund financial statements report operations in more detail than the government-wide statements by providing information about the District's most significant funds. A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. The District utilizes fund accounting to ensure and demonstrate compliance with the finance-related legal requirements underlying each fund. Funds enable the District to keep track of specific sources of funding and related expenditures. Some funds are required by state law and/or other restrictions such as bond covenants. Others, management establishes to control and manage resources for particular purposes.

The focus of the governmental fund financial statements is on major funds, rather than fund types. Funds can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

- ♦ **Governmental funds** – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on how cash and other financial assets can readily be converted as available resources, as well as on the balances at the end of the fiscal year that are available for spending. Such information may be useful in determining what financial resources are available in the near future to finance the District's operations, supplying the basis for tax levies and the appropriations budget.

Waco Independent School District
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended August 31, 2017

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

The District maintains numerous governmental funds, as needed, to ensure proper accountability. Information is presented separately in the governmental funds financial statements for the general fund, the National School Breakfast and Lunch Program fund, the debt service fund, and the combined capital projects funds. The general fund, by definition, is always considered a major fund. The National School Breakfast and Lunch fund, the debt service fund, and the capital projects funds are presented as major funds because management has judged these funds to be of particular interest to financial statement users. Data from the remaining governmental funds are combined into a single column, entitled "Non-major Funds".

- ♦ ***Proprietary funds*** - Proprietary funds are used to account for operations that are financed similar to those found in the private-sector. These funds provide both long and short-term financial information. There are two types of proprietary funds:
 - *Enterprise funds* are used to account for business-type activities. The District does not utilize enterprise funds.
 - *Internal services funds* are an accounting device used to accumulate and allocate costs internally among various funds and functions. The District uses an internal service fund to report activities for its workers' compensation and unemployment programs. As internal service funds predominantly benefit governmental functions, they have been consolidated with governmental activities in the government-wide financial statements.
- ♦ ***Fiduciary funds*** - Fiduciary funds are used to account for resources held by the District in a trustee capacity or as an agent for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are not available to support operations. The District acts as the trustee, or fiduciary, for these funds and is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. The fiduciary funds include scholarship funds and activities of student groups.

The notes to the financial statements provide additional information that is essential to a complete understanding of the data provided in the government-wide and fund financial statements. The notes immediately follow the fund financial statements and are included for some supplementary schedules.

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. The District adopts an annual appropriations budget for the general fund, National School Breakfast and Lunch Program, and the debt service fund. Budgetary comparison schedules have been provided as supplementary information to demonstrate compliance with budget requirements. Other schedules include delinquent taxes receivable, schedules related to the District's proportionate share of the TRS pension liability, and a schedule of federal awards as required by the Texas Education Agency and other reporting standards.

Waco Independent School District
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended August 31, 2017

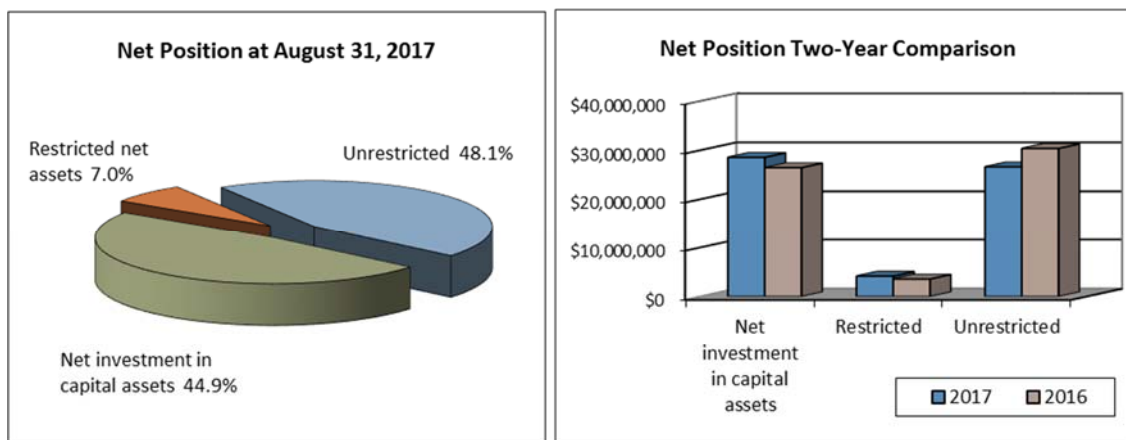
Government-wide Financial Analysis

The District's overall financial position and operations for the fiscal years ended August 31, 2017 and 2016 are summarized as follows, based on the information included in the government-wide financial statements.

	Governmental Activities		
	2017	2016	% Change
Current and other assets	\$ 66,323,077	\$ 66,244,648	0.1%
Capital assets, net of accumulated depreciation	194,145,162	198,673,652	-2.3%
Total assets	260,468,239	264,918,300	-1.7%
Deferred outflows of resources	33,015,051	39,511,129	-16.4%
Current liabilities	15,497,800	17,003,480	-8.9%
Long-term liabilities	216,539,816	221,156,635	-2.1%
Total liabilities	232,037,616	238,160,115	-2.6%
Deferred inflows of resources	2,141,098	5,909,893	-63.8%
Net position:			
Net investment in capital assets	28,540,181	26,434,432	8.0%
Restricted	4,157,846	3,569,239	16.5%
Unrestricted	26,606,549	30,355,750	-12.4%
Total net position	\$ 59,304,576	\$ 60,359,421	-1.8%

The District's total assets and deferred outflows of resources exceeded its total liabilities and deferred inflows of resources by \$59,304,576 as of August 31, 2017, a decrease of \$1,054,845 from August 31, 2016.

A significant portion of the District's net position reflects its investment in capital assets, e.g., land, buildings, and equipment, less any outstanding related debt used to acquire the assets. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since capital assets cannot be used to liquidate the liabilities. The District's net investment in capital assets increased \$2,105,749 over the prior year.



Approximately 7.0 percent of the net position represents resources subject to external restrictions on how they are used. \$2,251,264 of the funds are restricted for federal programs, specifically the National School Breakfast and Lunch program, with another \$1,906,582 legally reserved under bond covenants. The balance of unrestricted net position, \$26,606,549, may be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements. At the end of the fiscal year,

Waco Independent School District
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended August 31, 2017

44.9 percent of the net position was unrestricted resources available to fund the ongoing operations of the District. Unrestricted net position in the government-wide statements includes amounts shown as nonspendable, committed, or assigned in the fund statements.

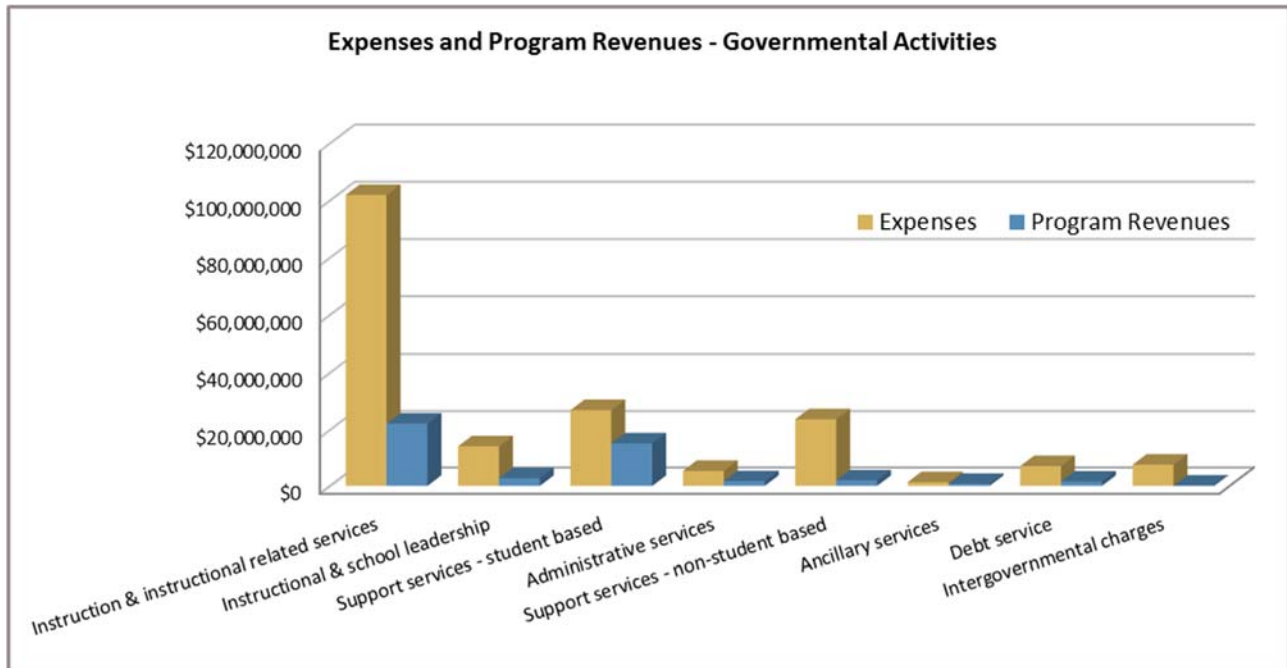
Changes in Net Position

The following table provides a summary comparing the District's operations for the years ended August 31, 2017 and 2016. For the year ended August 31, 2017, governmental activities decreased net position by \$1,054,845.

Changes in Net Position			
	<u>Governmental Activities</u>		
	<u>2017</u>	<u>2016</u>	<u>% Change</u>
Revenues:			
Program Revenues:			
Charges for services	\$ 5,701,926	\$ 4,666,579	22.19%
Operating grants and contributions	40,212,598	41,546,587	-3.21%
General Revenues:			
Property taxes	70,375,576	62,773,910	12.11%
Grants and contributions not restricted	68,772,790	70,471,901	-2.41%
Investment earnings	524,447	244,394	114.59%
Miscellaneous	768,018	708,154	8.45%
Total revenues	<u>186,355,355</u>	<u>180,411,525</u>	3.29%
Expenses:			
Instruction	92,410,667	88,611,062	4.29%
Instructional resources and media services	1,121,495	1,196,338	-6.26%
Curriculum and instructional staff development	8,340,412	7,509,106	11.07%
Instructional leadership	4,335,621	4,392,247	-1.29%
School leadership	9,845,156	9,978,219	-1.33%
Guidance, counseling, and evaluation services	5,574,333	5,144,364	8.36%
Social work services	941,636	1,417,893	-33.59%
Health services	1,177,356	1,216,958	-3.25%
Student transportation services	2,956,595	2,860,485	3.36%
Food services	10,769,354	10,492,347	2.64%
Extracurricular activities	5,449,388	5,051,637	7.87%
General administration	5,232,469	4,984,938	4.97%
Plant maintenance and operations	18,573,874	18,452,585	0.66%
Security and monitoring services	2,095,530	2,222,486	-5.71%
Data processing services	2,981,430	3,045,119	-2.09%
Community services	1,306,982	1,152,542	13.40%
Debt service - Interest on long-term debt	6,927,718	6,474,116	7.01%
Debt service - Issuance costs and fees	6,700	514,954	-98.70%
Payments to fiscal agents/member districts of shared services arrangements	522,174	520,899	0.24%
Payments related to Juvenile Justice Alternative Education program	558,366	410,518	36.01%
Payments to tax increment reinvestment zones	5,616,835	4,214,674	33.27%
Other intergovernmental charges	711,202	701,349	1.40%
Total expenses	<u>187,455,293</u>	<u>180,564,836</u>	3.82%
Increase in net position before transfers, and special items	(1,099,938)	(153,311)	617.46%
Transfers	-	-	
Gain (loss) on sale of capital assets	45,093	53,885	-16.32%
Change in net position	(1,054,845)	(99,426)	960.93%
Net position, September 1	<u>60,359,421</u>	<u>60,458,847</u>	-0.16%
Net position, August 31	<u>\$ 59,304,576</u>	<u>\$ 60,359,421</u>	-1.75%

Waco Independent School District
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended August 31, 2017

The cost of all governmental activities totaled \$187,455,293, increasing \$6,890,457 from the prior year. Program revenues of \$5,701,926, in the form of charges for services, and \$40,212,598, in grants and contributions, decreased a total of \$298,642. These revenues are inadequate to support the cost of operations. Consequently, after all program-specific revenues are applied, general revenues must cover all remaining costs. These general revenues include local property taxes, state formula funding, income from investments, and other miscellaneous income. The following chart compares expenses to revenues from user charges and operating grants and contributions by functional area.



The primary source of revenue comes from local property tax revenue. Property taxes for general purposes increased \$6,339,022 while property taxes levied for debt service increased \$1,262,644. Formula funding through the State's Foundation School program grants and contributions not restricted. In November 2015 the District held an election and voters ratified a tax rate of \$1.40, raising the maintenance and operations tax rate from \$1.04 to \$1.17 per \$100 of valuation. At the same time, the interest and sinking tax rate was lowered from \$0.31324 to \$0.23 per \$100 of valuation. As a result of this partial "tax rate swap", in fiscal year 2017 the District transferred \$1,199,429 from the General Fund to the Debt Service Fund to assist in the payment of long-term debt principal and interest.

State formula grants contributed \$68,772,790, 36.9 percent, of the \$186,355,355 total revenue. Funding from State formula grants decreased \$1,699,111 from the prior year. Three major factors impact State funding: property valuations and collections, representing local effort, and average daily attendance. Property values increased 10.2 percent for the 2016 tax year and the average daily attendance for the 2016-17 school year increased by 120.4 students from 2015-16.

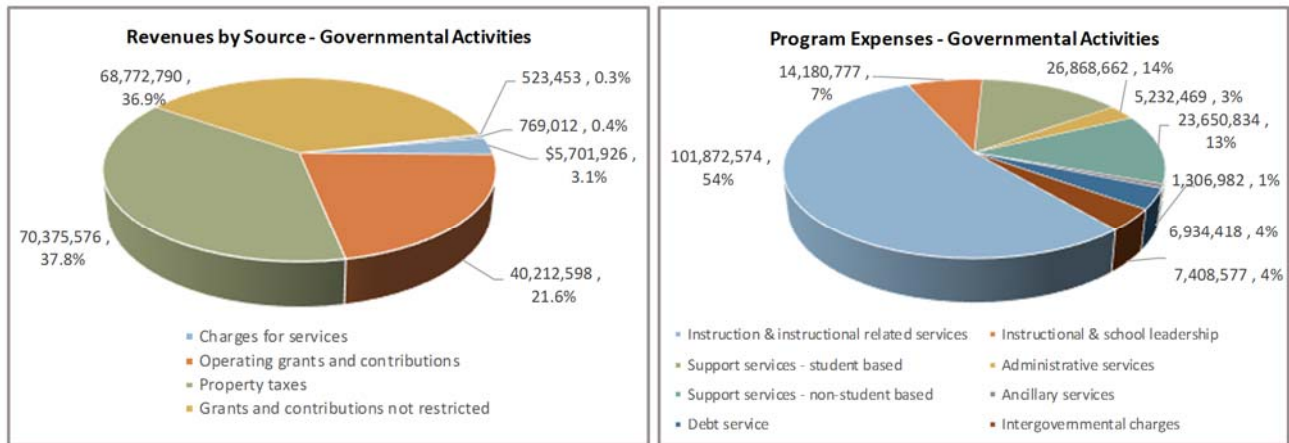
Revenue from operating grants and contributions contributed \$40,212,598 or 21.6 percent of total revenue. These revenues decreased \$1,333,989 from 2015-16 and reflect the expiration of two competitively awarded grants through the U.S. Department of Education for Magnet Schools Assistance and School Improvement (guidance and counseling) grants. The two grants ended on September 30, 2016.

Waco Independent School District
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended August 31, 2017

Revenues identified as charges for services increased by \$1,035,347 over 2015-16. The increase is due, primarily, to increased tuition revenue derived from the expansion of the Greater Waco Advanced Manufacturing and Health Care Academies.

Expenses for governmental activities increased by \$6,890,457 from the prior year. Expenditures for direct classroom instruction increased \$3,799,605 or 4.3 percent. This makes up 55.1 percent of the total increase in expenditures. Much of the increase is attributable to a full year of costs associated with positions funded through the tax ratification election and directed to the classroom as well as an average pay increase of 2.0 percent for employees paid on the teacher schedule. All other employee groups also received an average increase of 2.0 percent of the midpoint.

The following charts illustrate revenues for governmental activities by source and expenses by function. General revenues, such as taxes, State aid and investment income, are not reflected in the previous chart of expenses and program revenues, but are included within the governmental activities revenue chart to illustrate their significance.



Financial Analysis of the District's Funds

As noted, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements, bond covenants, and to segregate revenues and expenditures for particular purposes.

Governmental Funds

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

At August 31, 2017, the District's governmental funds reported combined ending fund balances of \$53,121,284, a decrease of \$870,386 from the prior year. 73.7 percent of the combined ending fund balances constitutes unassigned fund balance in the general fund.

Waco Independent School District
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended August 31, 2017

The remainder of the fund balance is not available because it is nonspendable, restricted, committed or assigned as follows:

Nonspendable fund balance:	
Investments in inventory	\$ 217,115
Prepaid items	467,185
Restricted fund balance:	
Federal or state funds grant restriction	2,251,264
Capital acquisition and contractual obligation	845,439
Retirement of long-term debt	4,653,605
Committed fund balance:	
Construction and other major improvements	2,862,324
Capital expenditures for equipment	625,108
Other committed fund balance	548,488
Assigned fund balance:	
Capital expenditures for equipment	1,373,504
Other assigned fund balance	111,626

The *general fund* is the primary operating fund and supports most of the District's educational program support operations. As of August 31, 2017, the fund balance for the general fund totaled \$44,822,488, decreasing \$1,094,753 from the year ended August 31, 2016. The unassigned portion of the fund balance increased by \$129,470 to \$39,165,626, while committed and assigned funds decreased by \$1,711,720. The decrease in committed and assigned funds is attributable to construction and other major improvements projects committed at August 31, re-appropriated and completed in the subsequent fiscal year. Nonspendable fund balance in inventories totaled \$217,115.

As a measure of the general fund's liquidity, it may be useful to compare both the unassigned fund balance and the total fund balance to the total fund expenditures. Unassigned fund balance represents 28.0 percent of total fund expenditures, while the total fund balance is 32.0 percent.

Revenues for the National School Breakfast and Lunch Program exceeded expenditures by \$522,811. The General Fund recognized \$401,707 in indirect cost recoveries from the program to cover administrative costs as well as maintenance (including the program's share of utilities costs), security, and technology infrastructure. Additionally, \$319,753 in purchase orders for a vehicle and kitchen equipment were not received as of August 31. These obligations will be honored in the 2017-2018 fiscal year. The fund balance at year end totaled \$2,251,264.

Reserves in the debt service fund increased by \$7,461. The property value increase of 10.2 percent resulted in increased local revenue of \$1,037,785. State program revenue, generated through the Existing Debt and Instructional Facilities allotments, decreased by \$583,034. At the same time, debt service payments for principal and interest on long-term debt decreased \$919,706. Expenditures exceeded revenues by \$1,191,968. The shortfall was made up through an operating transfer from the General Fund of \$1,199,429. The ending debt service reserve represents 32.4 percent of the annual debt service.

Other governmental funds include special revenue funds used to account for all financial resources restricted to, or designated for specific purposes by a grantor or other authority. Typically, these funds do not carry a fund balance. The fund balance shown of \$1,393,927, for the other governmental funds represents fund balances restricted for capital projects in the amount of \$845,439 and fund balances committed for campus activity funds in the amount of \$548,488.

Waco Independent School District
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended August 31, 2017

Proprietary Funds

An internal service fund is utilized to record costs associated with the District's partially self-funded workers' compensation and unemployment programs. The fund was established in order to charge the governmental funds for their share of these costs, provide additional detail for expenses, and allow for full accrual of actuarial estimates of future costs of incurred claims. Assessments to the other funds totaled \$446,601. Fees paid to the third party administrator totaled \$98,028. Workers' compensation claims invoiced totaled \$205,865 an increase of \$4,876 over the prior year. However, the District's estimated allocated loss adjustment expense of \$389,973, which was accrued at August 31, 2017, increased by \$78,884. Unemployment claims paid totaled \$62,804, a decrease of \$38,637 from the prior year. Due to the change in actuarial estimate for future costs and lower than anticipated unemployment costs, the ending net position for the fund increased \$1,019 to \$1,012,966 at August 31, 2017.

General Fund Budgetary Highlights

On August 25, 2016, the Board adopted the District's official budget which included annual operating budgets for the general, National School Breakfast and Lunch Program, and debt service funds. The Board approved budgets for the following funds that make up the District's Official Budget. Original appropriations in the official budget are as follows:

General fund	\$ 139,482,551
National School Breakfast and Lunch Program fund	9,631,913
Debt Service fund	14,546,796

In addition to the functional appropriations, the District budgeted an operating transfer of \$548,055 in the General Fund to cover the projected funding deficit for the operations of the Advanced Manufacturing and Health Care Academies. While estimated revenues covered budgeted appropriations in National School Breakfast and Lunch Program, budgeted appropriations exceed estimated revenues in both the General Fund and Debt Service fund by \$3,817,800 and \$1,805,548, respectively.

The General Fund budget was adopted based on a proposed tax rate of \$1.17 per \$100 of valuation. In proposing the 2016 tax rate, the Board decided to maintain the interest and sinking rate at \$0.23 per \$100 of valuation and utilize unassigned fund balance from the General Fund to assist in meeting debt obligations for the 2016-17 fiscal year.

The 84th Legislative session had resulted in changes to the State's Foundation School Program. Changes in the funding formula were estimated to generate an additional \$4.4 million in state and local. Approximately \$1.8 million would be required to support annual principal and interest payments for bonded debt.

The Board's priorities for the new funding were focused on direct classroom instruction and student support:

- Increase in both elementary and secondary classroom teachers resulting from enriched staffing guidelines;
- Implementation of a gifted and talented program at elementary;
- Expansion of the ATLAS program (middle school gifted and talented program);
- Expansion of the credit recovery program at both middle and high school;
- Expansion of fine arts at elementary;
- Increased participation in career and technical programs;
- Additional curriculum specialists focused on reading instruction; and
- Increase salaries and benefits to retain and attract highly qualified workforce.

Waco Independent School District
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended August 31, 2017

Much of the increase in property values was occurring on properties located within tax increment reinvestment zones in which the District participates. As a result, approximately 34 percent of the increased revenue was simply “passed through” to the tax increment fund. Additionally, losses funding required the District to assume special education costs previously funded through federal entitlement grants.

Over the course of the year, the District’s administration recommended, and the Board approved amendments to budgeted revenue and appropriations. Revisions to the revenue budget are necessary due to changes in estimates for local, state, and federal revenue based on updated information concerning student attendance, tax collections, and other factors. Revisions to appropriations are necessitated by changes in spending needs over the course of the year subsequent to the Board’s approval of the original budget. The Board may also fund additional allocations from unassigned fund balance for special projects.

The District’s major budget amendments during the year are summarized as follows:

- Revenue estimates were increased with offsetting expenditures appropriations increases for the following:
 - o \$1,040,000 in state foundation school revenue from increased enrollment as well as participation in career and technical programs with offsetting appropriations funding equipment for the new Academy of Construction Sciences and other instructional program expenditures;
 - o \$285,000 in local revenues to support increased participation in the Challenge Academy juvenile justice alternative education program;
 - o \$377,840 increasing federal E-Rate revenue to fund major improvements in the District’s data center; and
 - o \$87,083 from insurance recoveries to cover related repairs at University High School.
- Additionally, unassigned fund balance was used to support expenditure appropriations for the following:
 - o \$64,641 to accommodate growth in the ATLAS program at Tennyson middle school;
 - o \$1,185,550 for purchase orders not received at August 31, 2016, and re-appropriated in 2016-2017;
 - o \$5,498,732 for renovations and major repair projects not completed at August 31, 2016, and re-appropriated in 2016-2017;
 - o \$3,142,018 for new renovations and major repairs projects, including renovations for Child Nutrition Services, vocational building renovations, and upgrades at the athletic complex;
 - o \$238,200 for new Board initiatives, including funding improvement work at low-performing campuses, costs related to the search for a new superintendent, and legal and audit services

In the National School Breakfast and Lunch fund, appropriations were increased by \$809,727 with \$673,924 coming from restricted fund balance to provide for a new vehicle and kitchen equipment.

In addition, the Board of Trustees adopts budgets for several funds for which the District acts as the fiscal agent. These include the following funds and budgeted appropriations:

- | | |
|---|------------|
| • The McLennan County Challenge Academy | \$ 769,901 |
| • The Regional Day School for the Deaf | 616,797 |
| • The Greater Waco Advanced Academies: | |
| o Advanced Health Care Academy | 972,627 |
| o Advanced Manufacturing Academy | 1,027,820 |

Waco Independent School District
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended August 31, 2017

Capital Assets

The District's investment in capital assets for its governmental activities as of August 31, 2017, totaled \$194,145,162, net of accumulated depreciation of \$130,116,151. Capital assets, net of accumulated depreciation decreased \$4,528,490 from the August 31, 2016 balance. The investment in capital assets includes facilities and equipment utilized in instruction, student support services, administrative services, as well as community services, maintenance, security, and data processing services.

The following table shows the changes in capital assets by category of asset.

	Governmental Activities	
	August 31, 2017	August 31, 2016
Land	\$ 9,310,772	\$ 9,287,690
Buildings and improvements	175,252,573	180,686,089
Furniture, equipment, and vehicles	8,724,977	8,654,566
Construction in progress	856,840	45,307
Total capital assets, net of accumulated depreciation	<u>\$ 194,145,162</u>	<u>\$ 198,673,652</u>

Major capital asset acquisitions for the current fiscal year included:

- Construction in progress totaling \$886,428 of major renovations at the old maintenance shops to accommodate Child Nutrition Services. New spaces include offices, warehouse and refrigeration facilities, as well as a new demonstration kitchen for staff development. and
- \$1,027,995 in vehicle purchases including \$648,909 for new school buses.

These acquisitions were offset by depreciation and the sale of surplus property, including five buses, nine maintenance and security vehicles, and other surplus equipment sold at auction. Additional information may be found in the notes to the financial statements.

Long-term Liabilities

At August 31, 2017, the District had total long-term liabilities totaling \$221,514,816. Of this amount, \$183,001,730 comprises debt backed by the full faith of the State of Texas Permanent School Fund. During the 2016-17 fiscal year, the District retired \$6,695,000 in bonded debt through scheduled debt service payments. Bond payments due within one year total \$4,975,000. Long-term obligations also include lease revenue bonds in the amount of \$980,000, \$389,973 for estimated workers' compensation claims, and \$37,143,113 for the District's proportionate share of the net pension liability.

The following is a summary of the District's long-term liabilities:

Waco Independent School District
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended August 31, 2017

	Governmental Activities	
	August 31, 2017	August 31, 2016
General obligation bonds	\$ 159,795,000	\$ 166,200,000
Lease revenue bonds	980,000	1,270,000
Premiums	20,481,267	21,708,264
Accumulated accretion	2,725,463	2,648,885
Total bonds payable, net	183,981,730	191,827,149
Claims and judgments	389,973	311,089
Net pension liability	37,143,113	35,713,397
Total long-term liabilities	<u>\$ 221,514,816</u>	<u>\$ 227,851,635</u>

The District's bonds are issued with an "AAA" rating as guaranteed through the Texas Permanent School Fund bond guarantee program. The District's current underlying rating is "AA-" from Standard and Poor's and "Aa2" from Moody's Investors Service.

The District's net pension liability (NPL) relating to the State of Texas Teachers Retirement System cost-sharing pension plan increased \$1,429,716 in the fiscal year ended August 31, 2017, as a result of differences between projected and actual investment earnings and changes in the District's contributions and its proportionate share of contributions. The following table provides key pension information:

	Governmental Activities	
	August 31, 2017	August 31, 2016
Deferred outflows of pension resources	\$ 18,209,205	\$ 23,815,335
Pension liability	37,143,113	35,713,397
Deferred inflows of pension resources	2,141,098	5,909,893
Pension expense	8,634,650	9,690,356

Additional information about the District's long-term debt is presented in the accompanying notes to the financial statements.

Economic Factors and Next Year's Budgets and Tax Rates

For the 2017-2018 fiscal year, the Board of Trustees adopted a General Fund budget with appropriations totaling \$143,942,471, including an operating transfer of \$608,001 to cover the projected shortfall in funding for the Greater Waco Advanced Academies. Estimated revenues of \$140,883,148 fall short of funding these appropriations by \$3,059,323.

State revenues are driven by local property collections and values as well as student populations in average daily attendance. While significant increases in 2017 property values of 9.4 percent provided increased tax revenue for maintenance and operations of \$4,699,526, as in 2016-2017 much of the increased value was on properties located in tax increment reinvestment zones and \$1,684,656 of the new revenue was passed through to the tax increment fund. The increased values also had a negative impact on State revenue. Utilizing an average daily attendance of 13,669, an increase of 15 students, State Foundation School program revenue was estimated to decrease \$1,996,508. Additionally, cuts in federal programs resulted in a loss in revenue of \$1,138,469 including reductions in reimbursement rates for both E-Rate and Medicaid programs.

Waco Independent School District
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended August 31, 2017

Striving to retain and attract qualified teachers, the Board continued to approve additional funding for the District's compensation plan, increasing the teacher by to \$600 at each step. The monthly contribution to health insurance was increased 5 percent and the District picked up a 36 percent increase in the required contribution to TRS-Care. Minimum wage rates for support staff were increased to \$10.00 per hour for full-time staff and a cost of living increase averaging approximately 1.0 percent was given to all employee groups.

With the revenue losses and additional costs assumed by the general fund, the Board decided to increase the interest and sinking tax rate from \$0.23 to \$0.24 per \$100 of valuation. With the increase in values, this rate will generate a net estimated increase of \$825,438 in tax collections. Like the general fund, the increased property values negatively impact state revenues from the Existing Debt and Instructional Facilities Allotment. Revenues from these sources are estimated to decrease by \$722,581. Revenues are estimated to be short of covering annual debt service requirements by \$1,185,824.

The District will continue to refine budget estimates and project actual operating results. Early projections for the 2017-2018 school year show average daily attendance down 249 students, resulting in an estimated loss in state revenue of \$1,315,682 for general operations.

Chronic low performance of several of the District's campuses has forced a reconstitution of these schools. The District's leadership is working closely with the Texas Education Agency and local organizations to enhance the community involvement and develop strategies to improve the educational performance of its students. The District is committed to its stewardship, to utilizing its resources efficiently and effectively, and to fulfilling its promises to the community.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances. Questions concerning this report or requests for additional information should be addressed to the Chief Financial Officer, Waco Independent School District, 501 Franklin Avenue, Waco, Texas 76701.

Basic Financial Statements

Waco Independent School District
Statement of Net Position
August 31, 2017

Exhibit A-1

<u>Data Control Codes</u>		<u>Governmental Activities</u>
Assets		
1110	Cash and cash equivalents	\$ 34,652,953
1120	Investments	23,524,900
1220	Property taxes receivable	2,897,666
1230	Allowance for uncollectible taxes	(1,309,912)
1240	Due from other governments	5,401,017
1250	Accrued interest receivable	94,894
1290	Other receivables	290,551
1300	Inventories	303,823
1400	Prepayments	467,185
	Capital assets not subject to depreciation:	
1510	Land	9,310,772
	Capital assets, net of accumulated depreciation:	
1520	Buildings and improvements	175,252,573
1530	Furniture, equipment, and vehicles	8,724,977
1580	Construction in progress	856,840
1000	Total assets	<u>260,468,239</u>
Deferred Outflows of Resources		
1701	Deferred charge on refunding	14,805,846
1705	Deferred outflow of pension resources	18,209,205
1700	Total deferred outflows of resources	<u>33,015,051</u>
Liabilities		
2110	Accounts payable	4,275,985
2120	Other liabilities	50,872
2140	Accrued interest payable	311,700
2150	Payroll deductions and withholdings	1,373,048
2160	Accrued wages payable	3,753,849
2177	Due to fiduciary funds	64,038
2180	Due to other governments	94,710
2300	Unearned revenue	598,598
	Noncurrent liabilities:	
2501	Due within one year	4,975,000
2502	Due after one year	179,006,730
2540	Net pension liability (district's share)	37,143,113
2590	Claims and judgments	389,973
2000	Total liabilities	<u>232,037,616</u>
Deferred Inflows of Resources		
2605	Deferred inflows of pension resources	2,141,098
2600	Total deferred inflows of resources	<u>2,141,098</u>
Net Position		
3200	Net investment in capital assets	28,540,181
	Restricted for:	
3820	Federal and state programs	2,251,264
3850	Debt service	1,906,582
3900	Unrestricted	26,606,549
3000	Total net position	<u>\$ 59,304,576</u>

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

Waco Independent School District
Statement of Activities
For the Year Ended August 31, 2017

Exhibit B-1

of the Year Ended August 31, 2027

					Net (Expense) Revenue and Changes in Net Position
		1	Program Revenues		6
Data Control Codes			3	4 Operating Grants and Contributions	
		Expenses	Charges for Services		Governmental Activities
	Primary Government:				
	Governmental activities:				
11	Instruction	\$ 92,410,667	\$ 2,245,294	\$ 15,181,540	\$ (74,983,833)
12	Instructional resource and media services	1,121,495	51,533	36,359	(1,033,603)
13	Curriculum and instructional staff development	8,340,412	14,919	4,593,264	(3,732,229)
21	Instructional leadership	4,335,621	237,038	1,294,467	(2,804,116)
23	School leadership	9,845,156	370,870	794,084	(8,680,202)
31	Guidance, counseling, and evaluation services	5,574,333	168,535	1,941,734	(3,464,064)
32	Social work services	941,636	-	190,458	(751,178)
33	Health services	1,177,356	-	366,257	(811,099)
34	Student transportation services	2,956,595	-	216,381	(2,740,214)
35	Food services	10,769,354	734,826	10,088,199	53,671
36	Extracurricular activities	5,449,388	960,344	548,959	(3,940,085)
41	General administration	5,232,469	305,682	1,335,132	(3,591,655)
51	Plant maintenance and operations	18,573,874	388,975	597,899	(17,587,000)
52	Security and monitoring services	2,095,530	-	62,665	(2,032,865)
53	Data processing services	2,981,430	-	874,342	(2,107,088)
61	Community services	1,306,982	139,676	572,191	(595,115)
72	Interest on long-term debt	6,927,718	-	1,518,667	(5,409,051)
73	Issuance cost and fees	6,700	-	-	(6,700)
93	Payments to fiscal agents/member districts of shared services arrangements	522,174	84,234	-	(437,940)
95	Payments related to Juvenile Justice Alternative Education Program	558,366	-	-	(558,366)
97	Payments to tax increment zones	5,616,835	-	-	(5,616,835)
99	Other intergovernmental charges	711,202	-	-	(711,202)
TP	Total primary government	<u>\$ 187,455,293</u>	<u>\$ 5,701,926</u>	<u>\$ 40,212,598</u>	<u>(141,540,769)</u>
	Data Control Codes				
	General revenues:				
	Taxes:				
MT	Property taxes, levied for general purposes				58,783,113
DT	Property taxes, levied for debt service				11,592,463
GC	Grants and contributions not restricted				68,772,790
IE	Investment earnings				524,447
MI	Miscellaneous				768,018
SI	Gain on sale of capital assets				45,093
TR	Total general revenues				<u>140,485,924</u>
CN	Change in net position				(1,054,845)
NB	Net position, beginning				<u>60,359,421</u>
NE	Net position, ending				<u>\$ 59,304,576</u>

Waco Independent School District
Balance Sheet
Governmental Funds
August 31, 2017

Exhibit C-1

Data Control Codes	10 General Fund	24 Nat'l School Breakfast & Lunch Fund	50 Debt Service Fund	Non-major Governmental Funds	Total Governmental Funds
Assets					
1110 Cash and cash equivalents	\$ 30,248,351	\$ 2,207,079	\$ 459,048	\$ 1,738,475	\$ 34,652,953
1120 Investments	20,841,100	-	2,683,800	-	23,524,900
1220 Property taxes - delinquent	2,364,105	-	533,561	-	2,897,666
1230 Allowance for uncollectible taxes (credit)	(1,066,491)	-	(243,421)	-	(1,309,912)
1240 Receivables from other governments	1,851,994	480,499	304,014	2,764,510	5,401,017
1250 Accrued interest receivable	87,727	-	7,167	-	94,894
1260 Due from other funds	1,575,781	-	1,199,576	500,194	3,275,551
1290 Other receivables	16,384	85,056	-	189,111	290,551
1300 Inventories	217,115	86,708	-	-	303,823
1410 Prepayments	467,185	-	-	-	467,185
Total assets	<u>\$ 56,603,251</u>	<u>\$ 2,859,342</u>	<u>\$ 4,943,745</u>	<u>\$ 5,192,290</u>	<u>\$ 69,598,628</u>
Liabilities					
2110 Accounts payable	\$ 3,081,960	\$ 356,499	\$ -	\$ 823,332	\$ 4,261,791
2120 Short-term debt payable - current	50,872	-	-	-	50,872
2150 Payroll deductions and withholdings payable	1,373,048	-	-	-	1,373,048
2160 Accrued wages payable	3,296,522	61,828	-	395,499	3,753,849
2170 Due to other funds	2,680,747	97,286	-	1,978,689	4,756,722
2180 Due to other governments	-	-	-	94,710	94,710
2300 Unearned revenues	-	92,465	-	506,133	598,598
Total liabilities	<u>10,483,149</u>	<u>608,078</u>	<u>-</u>	<u>3,798,363</u>	<u>14,889,590</u>
Deferred Inflows of Resources					
2601 Unavailable revenues - property taxes	1,297,614	-	290,140	-	1,587,754
2600 Total deferred inflows of resources	<u>1,297,614</u>	<u>-</u>	<u>290,140</u>	<u>-</u>	<u>1,587,754</u>
Fund Balances					
Nonspendable fund balance:					
3410 Investments in inventory	217,115	-	-	-	217,115
3430 Prepaid items	467,185	-	-	-	467,185
Restricted fund balance:					
3450 Federal or state funds grant restriction	-	2,251,264	-	-	2,251,264
3470 Capital acquisition and contractual obligation	-	-	-	845,439	845,439
3480 Retirement of long-term debt	-	-	4,653,605	-	4,653,605
Committed fund balance:					
3510 Construction and other major improvements	2,862,324	-	-	-	2,862,324
3530 Capital expenditures for equipment	625,108	-	-	-	625,108
3545 Other committed fund balance	-	-	-	548,488	548,488
Assigned fund balance:					
3570 Capital expenditures for equipment	1,373,504	-	-	-	1,373,504
3590 Other assigned fund balance	111,626	-	-	-	111,626
3600 Unassigned fund balance	39,165,626	-	-	-	39,165,626
3000 Total fund balances	<u>44,822,488</u>	<u>2,251,264</u>	<u>4,653,605</u>	<u>1,393,927</u>	<u>53,121,284</u>
4000 Total liabilities, deferred inflows, and fund balances	<u>\$ 56,603,251</u>	<u>\$ 2,859,342</u>	<u>\$ 4,943,745</u>	<u>\$ 5,192,290</u>	<u>\$ 69,598,628</u>

Waco Independent School District
Reconciliation of Fund Balances of Governmental Funds
to Net Position of Governmental Activities
August 31, 2017

Exhibit C-1R

Fund balances - total governmental funds (Exhibit C-1) \$ 53,121,284

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The governmental capital assets at year-end consist of:

Governmental capital assets costs	\$ 324,261,313	
Accumulated depreciation of governmental capital assets	<u>(130,116,151)</u>	194,145,162

Property taxes receivable, that will be collected subsequent to year-end, but are not available soon enough to pay expenditures and, therefore, are deferred in the funds.		1,587,754
--	--	-----------

Long-term liabilities, including bonds payable and net pension liability, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Liabilities at year-end, related to such items, consist of:

Bonds payable, at original par	\$ (160,775,000)	
Premium on bonds payable	(20,481,267)	
Accreted interest on capital appreciation bonds	(2,725,463)	
Accrued interest on the bonds	(311,700)	
Net pension liability	<u>(37,143,113)</u>	(221,436,543)

An internal service fund is used by the District to charge the costs of various services to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities.

Workers' Compensation Fund		1,012,966
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Deferred charge on refunding is reported as deferred outflow in the statement of net position and is not reported in the funds because it is not a current financial resource available to pay for current expenditures.		14,805,846
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Deferred outflows for pension represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expenses/expenditures) until then.		18,209,205
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Deferred inflows for pension represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time.	<u>(2,141,098)</u>	
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Net position of governmental activities (Exhibit A-1)		<u>\$ 59,304,576</u>
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Waco Independent School District

Exhibit C-2

Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended August 31, 2017

Data Control Codes	10 General Fund	24 Natl School Breakfast & Lunch Fund	50 Debt Service Fund	Non-major Governmental Funds	98 Total Governmental Funds
Revenues					
5700 Local and intermediate sources	\$ 60,602,832	\$ 751,999	\$ 11,671,306	\$ 4,318,449	\$ 77,344,586
5800 State program revenues	74,767,481	53,714	1,518,667	2,302,471	78,642,333
5900 Federal program revenues	4,887,265	9,125,948	-	14,913,176	28,926,389
5020 Total revenues	<u>140,257,578</u>	<u>9,931,661</u>	<u>13,189,973</u>	<u>21,534,096</u>	<u>184,913,308</u>
Expenditures					
Current:					
6011 Instruction	74,405,911	-	-	11,967,555	86,373,466
6012 Instructional resources and media services	873,881	-	-	56,779	930,660
6013 Curriculum and instructional staff development	3,601,444	-	-	4,077,863	7,679,307
6021 Instructional leadership	2,650,289	-	-	1,322,094	3,972,383
6023 School leadership	9,219,380	-	-	302,175	9,521,555
6031 Guidance, counseling, and evaluation services	3,513,239	-	-	1,739,547	5,252,786
6032 Social work services	762,438	-	-	149,393	911,831
6033 Health services	1,121,320	-	-	13,692	1,135,012
6034 Student transportation services	3,201,247	-	-	-	3,201,247
6035 Food services	-	9,408,850	-	526,742	9,935,592
6036 Extracurricular activities	4,293,163	-	-	822,897	5,116,060
6041 General administration	5,017,758	-	-	1,870	5,019,628
6051 Plant maintenance and operations	18,016,774	-	-	557,504	18,574,278
6052 Security and monitoring services	2,044,705	-	-	7,552	2,052,257
6053 Data processing services	2,687,285	-	-	-	2,687,285
6061 Community services	693,987	-	-	523,563	1,217,550
Debt service:					
6071 Principal	290,000	-	6,405,000	-	6,695,000
6072 Interest	61,764	-	7,142,381	-	7,204,145
6073 Bond issuance cost and fees	-	-	6,700	-	6,700
Capital outlay:					
6081 Facilities acquisition, improvements, and maintenance	914,245	-	-	23,082	937,327
Intergovernmental:					
6093 Payments to fiscal agent/member districts of shared services arrangements	430,368	-	-	91,806	522,174
6095 Payments related to Juvenile Justice Alternative Education Program	558,366	-	-	-	558,366
6097 Payments to tax increment fund	4,788,975	-	827,860	-	5,616,835
6099 Other intergovernmental charges	711,202	-	-	-	711,202
6030 Total expenditures	<u>139,857,741</u>	<u>9,408,850</u>	<u>14,381,941</u>	<u>22,184,114</u>	<u>185,832,646</u>
1100 Excess (deficiency) of revenues over (under) expenditures	<u>399,837</u>	<u>522,811</u>	<u>(1,191,968)</u>	<u>(650,018)</u>	<u>(919,338)</u>
Other Financing Sources (Uses)					
7912 Sale of real and personal property	48,952	-	-	-	48,952
7915 Transfers in	-	-	1,199,429	344,113	1,543,542
8911 Transfers out	(1,543,542)	-	-	-	(1,543,542)
Total other financing sources (uses)	<u>(1,494,590)</u>	<u>-</u>	<u>1,199,429</u>	<u>344,113</u>	<u>48,952</u>
1200 Net change in fund balances	(1,094,753)	522,811	7,461	(305,905)	(870,386)
0100 Fund balances, beginning	45,917,241	1,728,453	4,646,144	1,699,832	53,991,670
3000 Fund balances, ending	<u>\$ 44,822,488</u>	<u>\$ 2,251,264</u>	<u>\$ 4,653,605</u>	<u>\$ 1,393,927</u>	<u>\$ 53,121,284</u>

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

Waco Independent School District

Exhibit C-2R

**Reconciliation of Statement of Revenues, Expenditures, and Changes in
Fund Balances of Governmental Funds to Statement of Activities
For the Year Ended August 31, 2017**

Total net changes in fund balances - Governmental Funds (Exhibit C-2) \$ (870,386)

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Capital assets increase	\$ 2,907,842	
Depreciation expense	<u>(7,436,332)</u>	(4,528,490)

Because some property taxes will not be collected for several months after the District's fiscal year end, they are not considered "available" revenues and are deferred in the governmental funds. The increase in deferred tax revenues is an increase to net position. 638,635

Repayment of bond and note principal is an expenditure in the governmental funds. The repayment reduces long-term liabilities in the statement of net position. 6,695,000

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The net decrease in interest reported in the statement of activities consist of the following:

Accrued interest on current interest bonds payable decreased	\$ 15,956	
Interest accreted on capital appreciation bonds	(76,577)	
Amortization of bond premiums	1,226,997	
Amortization of charge on refunding	<u>(889,948)</u>	276,428

The net change in net pension liability, deferred outflows, and deferred inflows is reported in the statement of activities but does not provide or require the use of current financial resources and, therefore, is not reported as revenues or expenditures in the governmental funds. The net change consists of the following:

Deferred outflows decrease	\$ (5,606,130)	
Deferred inflows decrease	3,768,795	
Net pension liability increase	<u>(1,429,716)</u>	(3,267,051)

An internal service fund is used by the District to charge the costs of various services to the individual funds. The change in net position of the following internal service fund is reported in the government-wide statements:

Workers' Compensation Fund		<u>1,019</u>
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Changes in net position of governmental activities (Exhibit B-1)		<u><u>\$ (1,054,845)</u></u>
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Waco Independent School District
Statement of Net Position
Proprietary Fund
August 31, 2017

Exhibit D-1

	<u>Governmental Activities</u>
	<u>Internal Service Fund</u>
Assets	
Current assets:	
Due from other funds	<u>\$ 1,417,133</u>
Total assets	<u>1,417,133</u>
Liabilities	
Current liabilities:	
Accounts payable	<u>14,194</u>
Total current liabilities	<u>14,194</u>
Noncurrent liabilities:	
Claims and judgements	<u>389,973</u>
Total noncurrent liabilities	<u>389,973</u>
Total liabilities	<u>404,167</u>
Net Position	
Unrestricted net position	<u>1,012,966</u>
Total net position	<u><u>\$ 1,012,966</u></u>

Waco Independent School District

Exhibit D-2

Statement of Revenues, Expenses, and Changes in Net Position**Proprietary Fund****Year Ended August 31, 2017**

	Governmental Activities
	Internal Service Fund
Operating revenues:	
Assessments to other funds	<u>\$ 446,601</u>
Total operating revenues	<u>446,601</u>
Operating expenses:	
Professional and contracted services	98,028
Claims expense	<u>347,554</u>
Total operating expenses	<u>445,582</u>
Change in Net Position	1,019
Net position:	
Net position, beginning	<u>1,011,947</u>
Net position, ending	<u><u>\$ 1,012,966</u></u>

Waco Independent School District
Statement of Cash Flows
Proprietary Fund
For the Year Ended August 31, 2017

Exhibit D-3

	<u>Governmental Activities</u>
	<u>Internal Service Fund</u>
Cash Flows from Operating Activities	
Cash received from assessments to other funds	\$ 388,431
Cash payments for insurance claims	(290,613)
Cash payments for professional and contracted services	<u>(97,818)</u>
Net cash provided by operating activities	<u>-</u>
Net increase in cash and cash equivalents	-
Cash and cash equivalents at beginning of year	<u>-</u>
Cash and cash equivalents at end of year	<u><u>\$ -</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating income	\$ 1,019
Effects of increases and decreases in current assets and liabilities:	
Increase in due from other funds	(76,029)
Decrease in accounts payable	(3,874)
Increase in claims liability	<u>78,884</u>
Net cash provided by operating activities	<u><u>\$ -</u></u>

Waco Independent School District
Statement of Net Position
Fiduciary Funds
August 31, 2017

Exhibit E-1

	<u>Private Purpose Trust Fund</u>	<u>Agency Fund</u>
Assets		
Investments	\$ 14,498	\$ -
Accrued interest	424	-
Due from other funds	<u>229</u>	<u>63,809</u>
Total assets	<u>15,151</u>	<u>\$ 63,809</u>
Liabilities		
Accounts payable	-	\$ 92
Due to student groups	<u>-</u>	<u>63,717</u>
Total liabilities	<u>-</u>	<u>\$ 63,809</u>
Net Position		
Restricted for scholarships and awards	<u>15,151</u>	
Total net position	<u>\$ 15,151</u>	

Waco Independent School District
Statement of Changes in Net Position
Fiduciary Funds
For the Year Ended August 31, 2017

Exhibit E-2

	<u>Private Purpose Trust Fund</u>
Additions:	
Earnings from investments	<u>\$ 151</u>
Total additions	<u>151</u>
Deductions:	
Scholarships and awards granted	<u>50</u>
Total deductions	<u>50</u>
Change in net position	101
Net position:	
Restricted for scholarships and awards	
Net position, beginning	<u>15,050</u>
Net position, ending	<u><u>\$ 15,151</u></u>

Waco Independent School District

Notes to the Financial Statements

For the Year Ended August 31, 2017

Note 1. Summary of Significant Accounting Policies

The basic financial statements of the Waco Independent School District have been prepared in conformity with Generally Accepted Accounting Principles (GAAP) promulgated by the Governmental Accounting Standards Board (GASB) and other authoritative sources identified in GASB Statement No. 56, and it complies with the requirements of the appropriate version of the Texas Education Agency's (TEA) Financial Accountability System Resource Guide (FASRG) and the requirements of contracts and grants of agencies from which it receives funds.

Reporting Entity

The Waco Independent School District (the "District") is an independent school district 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 Board of Trustees (the "Board") has the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has primary responsibility for fiscal matters.

Prescribed criteria under GAAP include considerations pertaining to organizations for which the primary government is financially accountable; and considerations pertaining to other 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.

Blended component units are, in substance, part of the primary government's operations, even though they are legally separate entities. Thus, blended component units are appropriately presented as funds of the primary government.

The Waco Independent School District Public Facilities Corporation (the "PFC") has been included as a blended component unit within the reporting entity. Created in February 1999 for the purpose of constructing a stadium facility for the District and governed by the same Board that governs the District, the PFC issued lease revenue bonds in the amount of \$4,300,000 and signed a lease agreement with the District for the use of the stadium. Additionally, the District contributed \$8,539,000 toward the construction of the stadium. Annual lease payments approximate the debt service requirements for the bonds. See Note 9 for current balances on the lease revenue bonds.

In evaluating how to define the government for financial reporting purposes, the District's management has considered all potential component units. By applying the criteria set forth in GAAP, the District has determined that no other organizations require inclusion within the reporting entity.

Government-wide Financial Statements

The government-wide financial statements report the information on all of the non-fiduciary activities of the District. All fiduciary activities are reported only in the fund financial statements. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, and other non-exchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support. There are no business-type activities reported for the District.

Waco Independent School District

Notes to the Financial Statements

For the Year Ended August 31, 2017

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds and internal service funds. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

The Statement of Net Position and the Statement of Activities are government-wide financial statements. They report information on all of the District's non-fiduciary activities with most of the interfund activities removed. Transactions among governmental funds and between governmental funds and proprietary funds appear as due to/due from other funds on the Governmental Fund Balance Sheet and Proprietary Fund Statement of Net Position and as other financing sources and uses on the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance and on the Proprietary Fund Statement of Revenues, Expenses and Changes in Fund Net Position. Interfund services provided and used are not eliminated in the consolidation of funds for the Statement of Activities. All interfund transactions that do not represent services provided and used between governmental funds and between governmental funds and internal service funds are eliminated on the government-wide statements. Interfund activities between governmental funds and fiduciary funds remain as receivables and payables on the government-wide Statement of Net Position.

Further, certain activity occurs during the year involving transfers of resources between funds. In the fund financial statements, these amounts are reported as transfers in/transfers out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function. Grants and contributions include amounts paid by organizations outside the District that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items, not properly included among program revenues, are reported instead as general revenues.

The District reports all direct expenses by function in the Statement of Activities. Direct expenses are those that are clearly identifiable with a specific function. Depreciation expense is specifically identified by function and is included in the direct expense to each function.

Fund Financial Statements

The District's accounts are organized into funds, each of which is considered to be a separate accounting unit. The operations of each fund are accounted for through a separate set of self-balancing accounts which are comprised of each fund's assets, liabilities, deferred outflows/inflows of resources, equity, revenues, and expenditures or expenses.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. In accordance with the provisions of GASB Statement No. 34, the fiduciary funds are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Waco Independent School District

Notes to the Financial Statements

For the Year Ended August 31, 2017

The District reports the following major governmental funds:

General fund – The general fund is the District’s primary operating fund. It is used to account for and report all financial resources not accounted for and reported in another fund. The general fund is always considered a major fund for reporting purposes.

National School Breakfast and Lunch Program fund – This fund is a special revenue fund used to account for resources restricted to the child nutrition program by the U.S. Department of Agriculture.

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 is local property taxes specifically for debt service.

The District reports the following non-major governmental funds:

Special revenue funds – Special revenue funds are 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. Funds include campus activity funds and all federal, state, and locally funded grants.

Capital projects funds – The capital projects funds are used to account for proceeds from the sales of bonds and other financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including acquiring, constructing, renovating and equipping of District facilities.

The District reports the following proprietary fund type:

Internal service fund - Revenues and expenses related to services provided to segments of the District on a cost reimbursement basis are accounted for in an internal service fund. The District's internal service fund accounts for workers' compensation and unemployment claims coverage provided to other departments of the District on a cost reimbursement basis as well as claims administration.

The District reports the following fiduciary fund types:

Private purpose trust fund - The District accounts for donations for which the donor has stipulated that both the principal and the income may be used for purposes that benefit parties outside the District. The District's private purpose trust fund(s) are used to account for resources legally held in trust for scholarships to be awarded to current and former students for post-secondary education and student awards for attendance.

Agency fund - The District accounts for resources held for others in a custodial capacity in an agency fund. The fund is used to account for assets held by the District as an agent for student organizations. Since agency funds are custodial in nature, they do not involve the measurement of operations.

The fund financial statements provide information about the District’s funds, including its fiduciary funds and blended component unit. The fund financial statements report on the financial condition and results of operations for each fund category – governmental, proprietary, and fiduciary. The emphasis of fund financial statements is on major governmental funds. Each major individual governmental fund is reported as a separate column in the fund financial statements. All remaining governmental funds are aggregated and reported as non-major funds.

Waco Independent School District

Notes to the Financial Statements

For the Year Ended August 31, 2017

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues result from providing goods and services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues the District's internal service fund are assessments to other funds for workers' compensation and unemployment coverage. Operating expenses for the internal service fund includes of cost of claims and administrative expenses. Because internal service funds support the operations of governmental funds, they are consolidated with the governmental funds in the government-wide financial statements. The expenditures of governmental funds that create the revenues of internal service funds are eliminated to avoid inflating the revenues and expenses of the District as a whole.

Since the resources in the fiduciary funds cannot be used for District operations, they are not included in the government-wide statements.

Basis of Accounting and Measurement Focus

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

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

Governmental fund financial statements use the *current financial resources* measurement focus and the *modified accrual* basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers all revenues available if they are collected within 60 days of the end of the current fiscal period.

Grant revenues and contributions are recorded as revenues when the qualifying expenditures have been incurred and eligibility requirements are met. Grant funds received in advance are recorded as unearned revenue until earned. Contributions received with purpose restrictions are recorded as revenue and the related fund balance is designated until restrictions are satisfied. If balances have not been expended by the end of the project period, grantors sometimes require the District to refund all or part of the unused amount. Amounts reported as program revenues include operating grants and contributions, food services user charges, rental charges, and tuition.

Internally dedicated resources are reported as general revenues rather than as program revenues. General revenues include all taxes. The Texas Education Agency (TEA), through its application of state law, allocates state revenues to school districts by formula allocation. The District receives a per capita allocation from the Available School Fund and a foundation school program allocation. The District also recognized revenues for the state's share of the contributions to the Teacher Retirement System of Texas. See Note 10 for additional information on the employee's retirement plan. Other state revenues are received through miscellaneous programs on an allocated basis. Property taxes, charges for services, and other miscellaneous revenue items are considered to be measurable and available only when cash is received by the government.

Waco Independent School District

Notes to the Financial Statements

For the Year Ended August 31, 2017

Expenditures are generally recognized in the accounting period in which the liability is incurred. However, debt service expenditures are recorded only when matured and payment is due. Expenditures related to claims and judgments are recognized when the obligations are expected to be liquidated with expendable, available financial resources. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds from the issuance of long-term debt and acquisitions under capital leases are reported as other financing sources. Property taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period.

The proprietary and private-purpose trust funds are reported using the *economic resources* measurement focus and the *accrual* basis of accounting. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the fund's Statement of Net Position. The fund equity is segregated into restricted net position and unrestricted net position. Agency funds have no measurement focus but utilize the *accrual* basis of accounting for reporting its assets and liabilities.

Use of Estimates

The presentation 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, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

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 Agency in order to ensure accuracy in building a statewide data base for policy development and fiscal planning.

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

Cash, cash equivalents, 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. All investments in pools are considered cash equivalents.

Investments can consist of certificates of deposit, U.S. Treasury instruments, U.S. Government agency obligations, commercial paper, investments in government sponsored enterprises, repurchase agreements, and obligations of Texas and other states, and their political subdivisions. Investments for the District, except for certain investment pools and non-negotiable certificates of deposit, are reported at fair value. The investment pools operate in accordance with appropriate state laws and regulations and are reported at amortized cost or net asset value, i.e., fair value. Fair value is determined by the amount by which a financial instrument could be exchanged in a current transaction between willing parties. Non-negotiable certificates of deposit are reported at cost. The District accrues interest on temporary investments based on the terms and effective interest rates of the specific investments. See Note 3 for additional discussion.

Waco Independent School District

Notes to the Financial Statements

For the Year Ended August 31, 2017

Property taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the District in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available when collected.

Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectible tax receivables within the General and Debt Service Funds are based on historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off according to the Texas Property Tax Code. See Note 4 for the discussion of the write-off of uncollectible taxes in the current year.

Interfund receivables and payables

Advances between funds, as reported in the fund financial statements, are accounted for in the appropriate interfund receivable and payable accounts. All legally authorized transfers are appropriately treated as transfers and are included in the results of operations. Such balances are eliminated within the governmental activities for the government-wide financial statements. See Note 7 for additional discussion.

Inventories and prepaid items

The District generally reports inventories of supplies using the average cost method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Inventories of food commodities are recorded at fair values. Although commodities are received at no cost, their fair value is supplied by the Texas Department of Agriculture and recorded as inventory and deferred revenue when received. When requisitioned, inventory and deferred revenue are relieved, expenditures are charged, and revenue is recognized in an equal amount.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

Capital assets

Capital assets, which include land, buildings and improvements, furniture, equipment, vehicles, and infrastructure assets (e.g. sidewalks, curbs, and similar items), are reported in the government-wide financial statements. Capital assets, except for buildings and improvements and infrastructure assets, are generally defined by the District as assets with an initial unit cost of \$5,000 or more and an estimated useful life in excess of two years. Buildings and improvements are capitalized when the cost of such improvements is \$100,000 or more. Likewise, infrastructure assets costing less than \$500,000 are not capitalized.

Capital assets are recorded at historical cost or estimated historical cost, if purchased or constructed. The costs of normal maintenance and repairs that do not materially add to the value of the asset or extend the lives of assets are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Donated capital assets are recorded at acquisition value.

Waco Independent School District

Notes to the Financial Statements

For the Year Ended August 31, 2017

Buildings, building improvements, equipment, and vehicles, of the District are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Buildings	50
Building improvements	6 - 50
Equipment	4 - 25
Vehicles	8 - 10

Land and construction in progress are not depreciated.

Long-term obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Accretion of interest on capital appreciation bonds are recorded at the accreted value through the end of the fiscal year.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Deferred outflows/inflows of resources

In addition to assets, the Statement of Net Position includes a separate section for *deferred outflows of resources*. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has two items that qualify for reporting in this category:

- Deferred outflow of resources for refunding – Reported in the government-wide statement of net position, this deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.
- Deferred outflows of resources for pension – Reported in the government-wide statement of net position, this deferred outflow results from pension plan contributions made after the measurement date of the net pension liability and the results of differences in other pension activities. The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the next fiscal year. The other pension related deferred outflows will be amortized over the expected remaining service lives of all employees (active and inactive employees), except for projected and actual earning differences on investments which are amortized on a closed basis over a five-year period.

Waco Independent School District

Notes to the Financial Statements

For the Year Ended August 31, 2017

In addition to liabilities, the statement of net position includes a separate section for *deferred inflows of resources*. This separate financial statement element represents an acquisition of net position that applies to a future reporting period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has two items which qualify for reporting in this category:

- Deferred inflows of resources for unavailable revenues – Reported only in the governmental funds balance sheet, unavailable revenues from property taxes arise under the modified accrual basis of accounting. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.
- Deferred inflows of resources for pension – Reported in the government-wide statement of net position, these deferred inflows result primarily from differences in pension activities. The other pension related deferred inflows will be amortized over the expected remaining service lives of all employees (active and inactive employees), except for projected and actual earning differences on investments which are amortized on a closed basis over a five-year period.

See Note 10 for the detail of other deferred resource inflows.

Pension liability

In government-wide financial statements, pensions are required to be recognized and disclosed using the accrual basis of accounting, regardless of the amount recognized as pension expenditures on the modified accrual basis of accounting. See Note 10, and the Required Supplementary Information (RSI) section immediately following the Notes to the Financial Statements.

The District recognizes a net pension liability for the qualified pension plan in which it participates, which represents the excess of the total pension liability over the fiduciary net position of the qualified pension plan, or the District's proportionate share thereof in the case of a cost-sharing multiple-employer plan, measured as of the respective pensions' fiscal year-end. Changes in the net pension liability during the period are recorded as pension expense, or as deferred inflows of resources or deferred outflows of resources depending on the nature of the change, in the period incurred. Those changes in net pension liability that are recorded as deferred inflows of resources or deferred outflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience are amortized over the weighted average remaining service life of all participants in the respective qualified pension plan and recorded as a component of pension expense beginning with the period in which they are incurred. Projected earnings on qualified pension plan investments are recognized as a component of pension expense.

Differences between projected and actual investment earnings are reported as deferred inflows of resources or deferred outflows of resources and amortized as a component of pension expense on a closed basis over a five-year period beginning with the period in which the difference occurred. The District charges funding requirements to pension expense in the governmental activities as incurred.

Government-wide net position

Net position represents the difference between the sum of assets and deferred outflows of resources and the sum of liabilities and deferred inflows of resources. The District's net position is composed of the following:

Net investment in capital assets – The component of net position that reports capital assets less both the accumulated depreciation and the outstanding balance of debt that is directly attributable to the acquisition, construction, or improvements of these capital assets.

Waco Independent School District

Notes to the Financial Statements

For the Year Ended August 31, 2017

Restricted for federal and state programs – The component of net position that reports the difference between assets and liabilities of the federal and state special revenue programs that consists of assets with constraints placed on their use by the Departments of Education and Agriculture or TEA.

Restricted for debt service – The component of net position that reports the difference between assets and liabilities with constraints placed on their use by law.

Unrestricted – The difference between the assets and liabilities that are not reported in net position invested in capital assets, net position restricted for debt service, net position restricted for federal and state programs, and net position restricted for other purpose.

Governmental fund balance classifications and policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance). The fund balance in governmental funds has been classified as follows to describe the relative strength of the spending constraints:

Nonspendable fund balance – The portion of fund balance that is not expendable or is legally earmarked for a specific use. Nonspendable fund balance reserves may include items such as inventory or prepaid expenses.

Restricted fund balance – The portion of fund balance that reflects resources that can be spent only for specific purposes because of local, state or federal laws, or externally imposed conditions by grantors or creditors. Restricted fund balances include funds for school breakfast and lunch programs, funds restricted for capital asset acquisition, funds used to retire long-term debt, or resources from granting agencies.

Committed fund balance – The portion of fund balance the represents amounts that can only be used for a specific purpose because of a formal action taken by the District's Board of Trustees. Committed amounts cannot be used for any other purpose unless the Board takes the same level of action to remove or change the constraint. The commitment of fund balance must be made prior to year-end.

Assigned fund balance – The portion of fund balance that represents amounts which the District intends to use for a specific purpose that do not meet the criteria to be classified as restricted or committed. The Board has authorized the administration to assign a portion of the fund balance, not to exceed one percent of the annual operating expenditures, as may be required to meet the financial needs of the District. 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 fund balance – The portion of the spendable fund balance that is not constrained and may be spent for any legal 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.

District policy requires that the general operating fund has a sufficient fund balance to maintain fiscal independence in case of a financial need. The District should maintain an unassigned fund balance of at least 20 percent of the total annual operating expenditures of the general fund. By resolution, the Board may commit a portion of the fund balance for a specific purpose. The committed portion of the fund balance must be spent for the specified purpose and may be amended at any time with Board approval. The amount of any budget deficit approved by the Board shall be categorized as an assignment of fund balance.

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For the Year Ended August 31, 2017

Encumbrances outstanding at year-end are not reported separately within the fund balance classifications but are reflected in the restricted, committed, or assigned fund balance classifications based on the source of constraints placed upon the resources encumbered. Encumbrances for specific purposes for which amounts have not already been restricted, committed, or assigned are reported as assigned fund balance. Encumbrances are documented by purchase orders and contracts.

In general, it is the District's policy to consider restricted resources to have been spent first when an expenditure is incurred for purposes for which restricted and unrestricted (i.e. committed, assigned, or unassigned) fund balances are available, followed by committed and then assigned fund balances. Unassigned amounts are used after other resources have been used.

Note 2. Stewardship, Compliance, and Accountability

Budgetary Information

By August 20, the District prepares a proposed budget for the succeeding fiscal year beginning September 1. The proposed budget includes expenditures and the means of financing them. A meeting of the Board of Trustees is then called for the purpose of adopting the proposed budget. At least ten days' public notice of the meeting must be given. Prior to September 1, the budget is legally adopted through passage of a resolution by the Board.

The appropriated budget is prepared by fund, function, object, organization, and program intent code as required under the TEA's FASRG. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is at the function level. As required by law, such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year end. Because the District has a policy of careful budgetary control, amendments were necessary during the year. Additionally, the Board approved supplemental budgetary appropriations throughout the year. These revisions are further detailed in the notes to the required supplementary information.

As legally adopted, the District's official budget includes budgets for the general fund, the National School Breakfast and Lunch program, and the debt service fund. Annual budgets are also adopted for the Regional Day School for the Deaf, the McLennan County Challenge Academy, and the Greater Waco Advanced Academies.

Although special revenue funds, other than the National School Breakfast and Lunch program and funds previously listed, do not have formally appropriated annual budgets, since other means control the use of these resources (e.g., grant awards and endowment requirements) and may span a period of more than one fiscal year, budgets are prepared for these funds, as well as capital projects funds and the internal services fund, as a management tool to ensure that resources are obtained and used in accordance with other finance-related legal or contractual requirements. Budgets for capital projects fund(s) are appropriated on a project basis. Specific projects are individually authorized by the Board, in compliance with applicable bond covenants, for construction funded from proceeds of long-term debt financing.

Encumbrances

The District utilizes encumbrance accounting in its governmental funds. Encumbrances represent commitments related to contracts not yet performed and are used to control expenditures for the year and enhance cash management. The encumbrance account does not represent an expenditure for the period, only a commitment to expend resources.

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Notes to the Financial Statements

For the Year Ended August 31, 2017

Prior to year-end, every effort is made to liquidate outstanding encumbrances. Encumbrances for open purchase orders or contracts outstanding at the end of the fiscal year are usually honored by the District. If the District allows encumbrances to lapse, even though it will honor the encumbrance, the appropriations authority expires. Funds for significant encumbrances are reappropriated in the following year's budget. Encumbrances outstanding at year-end are reported in restricted, committed, or assigned fund balances, as appropriate.

At August 31, 2017 certain amounts which were previously restricted, committed, or assigned for specific purposes have been encumbered in the governmental funds. Significant encumbrances included in governmental fund balances are as follows:

	Encumbrances Included in:		
	Restricted Fund Balance	Committed Fund Balance	Assigned Fund Balance
General Fund	\$ -	\$ 3,487,432	\$ 1,485,130
National School Breakfast & Lunch Fund	319,753	-	-
Total Nonmajor Funds	413,366	-	-
	<u>\$ 733,119</u>	<u>\$ 3,487,432</u>	<u>\$ 1,485,130</u>

Note 3. Cash and investments

Deposit and investment transactions of the District are regulated by state statutes through provisions of Chapter 23, Subchapter E, Sections 23.71 through 23.8, The School Depository Act, of the Texas Education Code and other code sections referenced therein and through provisions of the Texas Revised Civil Statutes, Title 47, Articles 2529c and 2548a, regarding security for District funds in Depository Institutions.

In accordance with applicable statutes, the District has a depository contract with an area bank providing for interest rates to be earned on deposited funds and for banking charges incurred as a result of banking services received. Depository contracts have a term of two years, commencing with the start of every odd-numbered fiscal year. Depository contracts are awarded on the basis of competitive bids received from area banks.

The depository bank pledges securities which comply with state law and these securities are held for safekeeping and trust with the District's and the depository bank's agent bank. The pledged securities are in compliance with the Texas Government Code, Chapter 2257, "Collateral for Public Funds", and are sufficient to meet the terms agreed to in the current depository contract as approved by TEA. The District's depository agreement with the bank requires an irrevocable standby letter of credit issued in favor of the District by the Federal Home Loan Bank of Dallas.

At August 31, 2017, the combined balance of cash, savings and time deposit accounts with the District's depository financial institution was \$6,121,990. District funds are insured by full Federal Deposit Insurance Corporation (FDIC) coverage up to \$250,000 for the combined amount of all time and savings accounts with the remaining amount secured by the letter of credit issued in the amount of \$45,000,000. In addition, the following is disclosed regarding coverage of combined cash and certificates of deposit balances on the date of highest deposit:

- Depository bank: Extraco Banks
- Total amount of FDIC coverage at the time of highest combined balance was \$250,000

Waco Independent School District

Notes to the Financial Statements

For the Year Ended August 31, 2017

The District's investment policy is in accordance with the Public Funds Investment Act, the Public Funds Collateral Act, and federal and state laws. The Texas Education Code (TEC) and the Texas Public Funds Investment Act (PFIA), as prescribed in Chapter 2256 of the Texas Government Code and the District's investment policies, regulate deposits and investment transactions of the District.

The TEC authorizes the District to place the proceeds from debt issues in properly secured or collateralized interest bearing time deposits with any Texas state or national bank having federal depository insurance coverage (FDIC) for depositors or directly in bonds or other obligations of the United States or U.S. Agency securities. TEC requirements prohibit the District from investing debt issue proceeds in interest-bearing time deposits that have any risk of original invested principal loss.

Statutes authorize the entity to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit; (3) certain municipal securities; (4) money market savings accounts; (5) repurchase agreements; (6) bankers' acceptances; (7) mutual funds; (8) investment pools; (9) guaranteed investment contracts; (10) and common trust funds.

The PFIA requires an annual review and approval of investment policies and practices. The review disclosed that in this area of investment practices, management reports, and establishment of appropriate policies, the District materially adhered to the requirements of the PFIA.

For fiscal year 2017, the District invested in certificates of deposits (direct purchase bank issue and brokered) and other FDIC insured deposits, commercial paper, public funds investment pools, U.S. Government Agency securities.

In accordance with the provisions of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, the District's investments with a maturity date of greater than one year have been recorded at fair value based upon quoted market prices as of August 31, 2017 with the increase or decrease in fair value being recorded as a component of earnings on investments. The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. GASB Statement No. 72, *Fair Value Measurement and Application*, provides a framework for measuring fair value which establishes a three-level fair value hierarchy that describes the inputs that are used to measure assets and liabilities.

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

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. If a price for an identical asset or liability is not observable, a government should measure fair value using another valuation technique that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs. If the fair value of an asset or a liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level input that is significant to the entire measurement.

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Notes to the Financial Statements

For the Year Ended August 31, 2017

As of August 31, 2017, the District's governmental activities and fiduciary funds cash, cash equivalents, and investments, with respective maturities and credit rating are as follows:

Type of Investment	Book Value	Fair Value Measurement Using	Percent of Total Investments	Weighted Average Maturity (Days)	Credit Risk
		Significant Other Observable Inputs (Level 2)			
Cash and cash equivalents:					
Cash on hand	\$ 17,570	\$ -	0.0%		
Cash in depository	4,670,787	-	8.0%		
Insured Cash Shelter	9,669,156	-	16.6%		
Investment pools measured at amortized cost:					
TexasDAILY	105,923	-	0.2%	41	AAAm*
TexPool	9,091,179	-	15.6%	30	AAAm*
Investment pools subject to fair value, not subject to level reporting:					
Lone Star	6,467,256	-	11.1%	43	AAAf/SI+*
Texas Class	4,631,081	-	8.0%	56	AAAm*
Total cash and cash equivalents	34,652,952	-	59.5%		
Investments:					
Investments measured at cost:					
Certificates of deposit	11,890,498	-	20.4%	165	Not rated
Investments measured at fair value, subject to level reporting:					
Commercial paper	7,656,300	7,656,300	13.2%	257	A1*
Federal Farm Credit Bank	1,998,000	1,998,000	3.4%	730	AA+*
Federal Home Loan Mortgage Corporation	1,994,600	1,994,600	3.4%	528	AA+*
Total investments	23,539,398	11,648,900	100.0%		
Total value	\$ 58,192,350	\$ 11,648,900	100.0%		
Portfolio weighted average maturity				132	

*Standard & Poor's Rating

Investment pools are measured at amortized cost or fair value and are exempt from level reporting. Certificates of deposit are measured at cost. U.S. Government Agency Securities and commercial paper are valued using a matrix pricing technique based on the securities' relationship to benchmark quoted prices.

The District purchases certificates of deposit (CD) through direct purchase, issued by depository institutions that have its main office or a branch office in Texas that is guaranteed or insured by the FDIC. The District also purchases CDs through a broker that has its main office or a branch office in this state and selected from a list adopted by the Board of Trustees as required by Government Code 2256.025. These purchase programs include the *Certificate of Deposit Account Registry Services (CDARS)* program, an *Insured Cash Shelter Account*, and the *Texas TERM CD Purchase Program*. CDs are purchased in principal amounts that, when aggregated with interest to accrue over the term of the CD, will not exceed \$250,000, therefore ensuring that each CD will be insured by the FDIC.

CDARS is a special service developed by Promontory Interfinancial Network, LLC. Funds placed through CDARS are deposited only in FDIC-insured banks. The District has entered into a CDARS Deposit Placement Agreement and custodial agreement with Hilltop Securities. Hilltop Securities acts as custodian for the CDARS deposits with the Bank of New York Mellon is the subcustodian. Early withdrawals are available, but may require the payment of a substantial penalty.

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For the Year Ended August 31, 2017

The District also utilizes the *TexasTERM CD Purchase Program* in purchasing CDs. The program offers participants competitive rates of return on FDIC-insured investments. The CDs in which a participant invests are direct investments of the participant, are not assets of the Texas TERM Local Government Investment Pool, and are not held in any portfolio of the Pool.

The District holds a number of CDs issued by local depository institutions in its fiduciary capacity over private purpose trust funds. In purchasing the CDs, the District obtains rate quotes from local depository institutions. All deposits are fully covered through FDIC insurance.

Through the *Insured Cash Shelter (ICSA)* program, the District maintains interest-bearing on-demand deposits. The *ICSA* is a program offered by USA Mutuals Partners, Inc., which invests funds at financial institutions throughout the U.S. The District has entered into with USA Partners to act in an agent capacity for the program. Funds in these programs are FDIC insured upon deposit at participating program institutions. Cash deposits are distributed among well capitalized banks in increments of less than \$250,000, the current FDIC insurance limit. Institutional Deposits Corp. acts as the administrator of the network. Wells Fargo Bank, N.A., is the primary custodian bank for all deposits. U.S. Bancorp Fund Services provides processing services for the *ICSA* product. Liquidity is at par plus interest, without any early termination penalties or fees.

The certificates of deposit and Insured Cash Shelter funds are deposited in such a manner that maintains full insurance of the funds by the FDIC. Consequently, these amounts are excluded from the fair value hierarchy as they are considered deposits with financial institutions.

The TexPool and TexasDAILY investment pools are external investment pools measured at amortized cost. In order to meet the criteria to be recorded at amortized cost, investment pools must transact at a stable net asset value per share and maintain certain maturity, qualify, liquidity, and diversification requirements within the investment pool. The investment pools transact at a net asset value of \$1.00 per share, have weighted average maturity of 60 days or less and weighted average life of 120 days or less. Investments held are highly rated by nationally recognized statistical rating organization, have no more than 5% of portfolio with one issuer (excluding U.S. government securities), and can meet reasonably foreseeable redemptions. These investment pools' authorities may only impose restrictions on redemptions in the event of a general suspension of trading on major securities market, general banking moratorium or national or state emergency that affects the pools' liquidity.

The Lone Star and Texas CLASS investment pools are external investment pools measured at fair value, i.e., their net asset value. Such investment pool's strategy is to seek preservation of principal, liquidity, and current income through investment in a diversified portfolio of short-term marketable securities. The District has no unfunded commitments related to the investment pools. Such investment pools have a redemption notice period of one day and may redeem daily. The investment pools' authorities may only impose restrictions on redemptions in the event of a general suspension of trading on major securities market, general banking moratorium, or national or state emergency that affects the pools' liquidity.

Interest Rate Risk

In accordance with the District's investment policy, investments are made in a manner that ensures the preservation of capital in the overall portfolio and offsets during a twelve-month period any market price losses resulting from interest-rate fluctuations by income received from the balance of the portfolio. The District's investment strategy states that no individual transaction shall be undertaken that jeopardizes the total capital position of the overall portfolio. To limit the risk that changes in interest rates will adversely affect the fair value of investments, the District manages its exposure to declines in fair values by limiting the maturity of its investment portfolio. The term of any collateralized mortgage obligation is limited to ten

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Notes to the Financial Statements

For the Year Ended August 31, 2017

years, repurchase agreements may not exceed 90 days, bankers' acceptances and commercial paper must have a stated maturity of 270 days or less, no-load money market mutual funds must have a dollar-weighted average stated maturity of 90 days or less, and no-load mutual funds must have an average weighted maturity of less than two years.

Custodial Credit Risk for Deposits

This is the risk that, in the event of a bank failure, the District's deposits may not be returned to it. All deposits not covered by FDIC insurance but held in the depository bank, Extraco, were fully collateralized.

Custodial Credit Risk for Investments

To limit the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in possession of an outside party, the District requires counterparties to register the securities in the name of the District and hand them over for safekeeping with the District's designated agent, First Tennessee Bank.

Credit Risk

It is the District's policy to limit its investment in a manner that ensures the preservation of capital in the overall portfolio. Specifically, repurchase agreements must be secured by obligations of the United States or its agencies, commercial paper must be rated not less than 'A-1' or 'P-1', no-load mutual funds must be rated not less than 'AAA' or its equivalent, and public funds investment pools must be continuously rated no lower than 'AAA' or 'AAAm' or at an equivalent rating. The District's investments in local government investment pools (LGIPs) include: Lone Star, Texas Class, Texas TERM Daily, and TexPool. These are all public funds investment pools operating in full compliance with the Public Funds Investment Act. All are rated 'AAAm' or AA+ by Standard and Poor's.

Concentration of Credit Risk

To limit the risk of loss attributed to the magnitude of a government's investment in a single issuer, the District's investment portfolio is diversified in terms of investment instruments, maturity scheduling, and financial institutions. District policy further limits investments in a single issuer when they would cause investment risks to be significantly greater in the governmental activities, individual major funds, aggregate non-major funds and fiduciary funds than they are in the primary government.

The net decrease in the fair value of investments during the year ended August 31, 2017, is included in investment earning as follows:

Investment earnings	\$ 499,029
Net increase in fair value of investments	<u>25,418</u>
Total investment earnings	<u><u>\$ 524,447</u></u>

Waco Independent School District

Notes to the Financial Statements

For the Year Ended August 31, 2017

Note 4. Local Revenues and Property Taxes

Local and intermediate sources revenues are comprised of the following:

	General Fund	National School Breakfast and Lunch Fund	Debt Service Fund	Non-major Governmental Funds	Total
Property taxes	\$ 58,263,434	\$ -	\$ 11,473,507	\$ -	\$ 69,736,941
Other tax related income	627,835	-	130,577	-	758,412
SSA revenue from member districts	77,460	-	-	1,403,905	1,481,365
Services to other districts	-	-	-	619,613	619,613
Tuition and fees	197,722	-	-	794,800	992,522
Investment income	455,608	994	67,222	623	524,447
Rental income	205,911	-	-	-	205,911
Gifts and bequests	-	-	-	596,081	596,081
Insurance recoveries	10,600	16,179	-	-	26,779
Food sales	-	734,826	-	-	734,826
Extracurricular activities	498,516	-	-	138,502	637,018
Other charges for services	265,746	-	-	764,925	1,030,671
	<u>\$ 60,602,832</u>	<u>\$ 751,999</u>	<u>\$ 11,671,306</u>	<u>\$ 4,318,449</u>	<u>\$ 77,344,586</u>

Property taxes

Appraisal of property within the District is the responsibility of the McLennan County Appraisal District. The District's ad valorem property tax is levied on October 1 on the assessed value as of the prior January 1 for all real and business personal property located in the District. Taxes are due and payable on receipt of the tax bill. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest imposed. The assessed value of the roll on January 1, 2016 was \$7,720,843,718. After deductions of all exemptions and reductions provided by law, the 2016 tax levy was based on a net taxable value of \$5,251,460,667.

The tax rates assessed for the year ended August 31, 2017, to finance general fund operations and the payment of principal and interest on long-term debt were \$1.17 and \$0.23 per \$100 valuation, respectively, for a total rate of \$1.40 per \$100 valuation. Property tax revenues are considered available when collected. Current tax collections for the fiscal year ended August 31, 2017, were 98.7% of the adjusted tax levy.

All taxes become delinquent on February 1 of the subsequent year. Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectible taxes within the general and debt service funds are based upon historical experience in collecting property taxes. The District has provided an allowance for estimated uncollectible property taxes and estimated adjustments within the general and debt service funds of \$1,066,491 and \$243,421, respectively.

The Texas Property Tax Code directs tax collectors to cancel and remove from the tax rolls real property taxes that have been delinquent more than 20 years and personal property taxes that have been delinquent more than 10 years. Additionally, the Texas Property Tax Code provides that personal property may not be seized and a suit may not be filed to collect a tax on personal property that has been delinquent more than four years.

Waco Independent School District

Notes to the Financial Statements

For the Year Ended August 31, 2017

Note 5. Receivables

Receivables as of year-end for the District's individual major funds and non-major governmental funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

Funds	General Fund	National School Breakfast & Lunch Pgm	Debt Service Fund	Non-major Governmental Funds	Total
Property taxes, delinquent	\$2,364,105	\$ -	\$ 533,561	\$ -	\$ 2,897,666
Due from other governments					
Federal	350,933	480,499	-	2,604,297	3,435,729
State	1,501,061	-	304,014	160,213	4,993,108
Other governments	-	-	-	-	-
Accrued interest	87,727	-	7,167	-	94,894
Other receivables	16,384	85,056	-	189,111	290,551
Gross receivables	4,320,210	565,555	844,742	2,953,621	11,711,948
Less: Allowance for uncollectible taxes	(1,066,491)	-	(243,421)	-	(1,309,912)
Net receivables	<u>\$3,253,719</u>	<u>\$ 565,555</u>	<u>\$ 601,321</u>	<u>\$ 2,953,621</u>	<u>\$ 10,402,036</u>

Amounts due from other governments in the general fund are primarily for the Foundation School Program. Amounts due from the state in the National School Breakfast and Lunch Program represent receivables reimbursable meals. Amounts due from local, state, and federal agencies in the non-major governmental funds represent receivables for the excess of expenditures over revenues incurred in the administration of various supplemental education programs.

Receivables in the private interest trust fund consist of accrued interest of \$424.

Note 6. Unearned revenue

Governmental funds report unearned revenue in connection with receivables for revenues that are considered to be unavailable to liquidate liabilities in the current period or in connection with resources that have been received, but not yet earned.

A summary of unearned revenue by fund follows:

	Unearned Revenue
National School Breakfast & Lunch program	
Commodities inventory	\$ 86,708
Prepaid meals by students	5,757
Other governmental funds	
Grant funds received prior to meeting eligibility requirements	506,133
Total	<u>\$ 598,598</u>

Waco Independent School District

Notes to the Financial Statements

For the Year Ended August 31, 2017

Note 7. Interfund balances and transfers

Interfund balances result from the time lag between the dates that reimbursable expenditures occur and payments between funds are made. The interfund receivable and payable between the general fund and non-major governmental funds occurs when expenditures take place before the reimbursement is received from the granting agency. The interfund balances between the general fund and the capital projects, debt service, agency, and internal services funds occur due to payments made from the general fund operating account on behalf of these funds. The interfund balances between the internal services fund and the general and non-major governmental funds occur due to the recording of workers' compensation and unemployment liabilities recorded but not yet funded.

Interfund balances at August 31, 2017, consisted of the following:

<u>Funds</u>	<u>Receivable</u>	<u>Payable</u>
General fund	\$ 1,575,781	\$ 2,680,747
National School Breakfast and Lunch fund	-	97,286
Debt Service fund	1,199,576	-
Other non-major governmental funds	500,194	1,978,689
Internal Service fund	1,417,133	-
Private Purpose Trust fund	229	-
Agency funds	63,809	-
Total interfund balances	<u>\$ 4,756,722</u>	<u>\$ 4,756,722</u>

Operating transfers take place without an equivalent flow of assets back to the transferring fund with no expectation of repayment. In the year ended August 31, 2017, operating transfers were made between the following funds:

<u>Funds</u>	<u>Transfer In</u>	<u>Transfer Out</u>
General fund	\$ -	\$ 1,543,542
Other non-major governmental funds:		
Greater Waco Advanced Academies	344,113	-
Debt Service fund	1,199,429	-
Total operating transfers	<u>\$ 1,543,542</u>	<u>\$ 1,543,542</u>

During the fiscal year ended August 31, 2017, the District made the following one-time transfers:

- Transfers totaling \$344,113 from the general fund to a non-major special revenue fund to cover the operating deficits for the Greater Waco Advanced Manufacturing and Health Care Academies in the amount of \$262,748 and \$81,365, respectively.
- A transfer of \$1,199,429 from the general fund to the debt service fund. This amount represents revenues generated in the general fund from the increased maintenance and operations tax rate to offset the loss of property tax revenue in the debt service fund due to the low interest and sinking rate or the effects of a "tax rate swap" as approved in the November 2016 tax ratification election.

Waco Independent School District

Notes to the Financial Statements

For the Year Ended August 31, 2017

Note 8. Capital assets

Capital asset activity for the District for the year ended August 31, 2017 was as follows:

	Balance September 1, 2016	Additions	Retirements and Transfers	Balance August 31, 2017
<i>Capital assets, not being depreciated:</i>				
Land	\$ 9,287,690	\$ 23,082	\$ -	\$ 9,310,772
Construction in progress	45,307	914,246	(102,713)	856,840
Total capital assets, not being depreciated	9,332,997	937,328	(102,713)	10,167,612
<i>Capital assets, being depreciated:</i>				
Buildings and improvements	281,278,412	415,000	102,713	281,796,125
Furniture, equipment, and vehicles	30,742,062	1,976,577	(421,063)	32,297,576
Total capital assets, being depreciated	312,020,474	2,391,577	(318,350)	314,093,701
Less accumulated depreciation for:				
Buildings and improvements	100,592,323	5,951,229	-	106,543,552
Furniture, equipment, and vehicles	22,087,496	1,902,307	(417,204)	23,572,599
Total accumulated depreciation	122,679,819	7,853,536	(417,204)	130,116,151
Total capital assets, being depreciated, net	189,340,655	(5,461,959)	98,854	183,977,550
Governmental activities capital assets, net	\$ 198,673,652	\$ (4,524,631)	\$ (3,859)	\$ 194,145,162

Depreciation expense of the governmental activities for the year ended August 31, 2017 was charged to the functions as follows:

Function	Description	Amount
11	Instruction	\$ 4,790,773
12	Instructional resources and media services	191,370
13	Curriculum and instructional staff development	14,902
21	Instructional leadership	104,762
23	School leadership	99,646
31	Guidance, counseling, and evaluation services	29,286
32	Social work services	600
33	Health services	27,136
34	Student transportation services	404,257
35	Food services	400,708
36	Extracurricular activities	720,304
41	General administration	163,606
51	Plant maintenance and operations	365,648
52	Security and monitoring services	102,341
53	Data processing services	409,112
61	Community services	29,085
	Total depreciation expense - governmental activities	<u>\$ 7,853,536</u>

Waco Independent School District

Notes to the Financial Statements

For the Year Ended August 31, 2017

Note 9. Long-term liabilities

The District's long-term liabilities consist of bonded indebtedness, self-insured workers' compensation, and net pension liability. The current requirements for general obligation bonds principal and interest are accounted for in the debt service fund. The current requirements for maintenance tax notes and revenue bonds are accounted for in the general fund. The current requirements for self-funded workers' compensation claims are accounted for and liquidated in the internal services fund. The current requirements for net pension liability are accounted for in the general and special revenue funds.

The District issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. Revenue bonds were issued in 1999 to provide funds for the construction of an athletics facility for the District.

Changes in long-term liabilities

Long-term liability activity for the year ended August 31, 2017, was as follows:

	Balance September 1, 2016	(Provisions) and Additions	Reductions	Balance August 31, 2017	Due Within One Year
Bonds payable:					
General obligation bonds	\$ 166,200,000	\$ -	\$ (6,405,000)	\$ 159,795,000	\$ 4,665,000
Lease revenue bonds	1,270,000	-	(290,000)	980,000	310,000
Premiums	21,708,264	-	(1,226,997)	20,481,267	-
Accumulated accretion	2,648,885	76,578	-	2,725,463	-
Total bonds payable, net	191,827,149	76,578	(7,921,997)	183,981,730	4,975,000
Claims	311,089	284,749	(205,865)	389,973	-
Net pension liability	35,713,397	5,363,803	(3,934,087)	37,143,113	-
Total long-term liabilities	<u>\$ 227,851,635</u>	<u>\$ 5,725,130</u>	<u>\$ (12,061,949)</u>	<u>\$ 221,514,816</u>	<u>\$ 4,975,000</u>

Internal service funds serve the governmental funds. Accordingly, long-term liabilities for workers' compensation claims are included as part of the above totals for governmental activities.

General obligation bonds

The District issues general obligation bonds to provide funds for the construction and equipment of school facilities and to refund general obligation bonds. General obligation bonds are direct obligations and pledge the full faith and credit of the District. These are issued as current interest bonds or capital appreciation bonds (CAB). Certain outstanding bonds may be redeemed at their par value prior to their normal maturity dates in accordance with the terms of the related bond indenture. The \$159,795,000 in outstanding general obligation bonds and related liabilities comprises debt backed by the full faith of the State of Texas Permanent School Fund.

Waco Independent School District

Notes to the Financial Statements

For the Year Ended August 31, 2017

General obligation bonds outstanding at August 31, 2017 are as follows:

Series	Interest Rate	Original Issue Amount	Maturity Date	Beginning Balance	Additions	Reductions	Ending Balance
2006 (CAB)	4.23%	\$ 45,000	2020	\$ 45,000	\$ -	\$ -	\$ 45,000
2008	4.00%-5.25%	132,670,000	2017	2,800,000	-	(2,800,000)	-
2010	2.00%-3.25%	7,550,000	2020	6,020,000	-	(1,700,000)	4,320,000
2013	0.28%-4.00%	9,635,000	2020	6,485,000	-	(1,525,000)	4,960,000
2014	2.00%-4.00%	8,320,000	2025	8,125,000	-	(10,000)	8,115,000
2014 (CAB)	2.70%	150,000	2023	150,000	-	-	150,000
2015	2.00%-5.00%	96,730,000	2038	95,135,000	-	(320,000)	94,815,000
2015 (CAB)	1.30%	1,255,000	2018	1,255,000	-	-	1,255,000
2016	2.00%-5.00%	47,120,000	2038	46,185,000	-	(50,000)	46,135,000
Totals – bonds payable at original par value				166,200,000	-	(6,405,000)	159,795,000
Deferred amounts:							
For issuance premiums				21,708,264	-	(1,226,997)	20,481,267
For accreted interest				2,648,885	76,578	-	2,725,463
Totals – bonds payable, net				<u>\$ 190,557,149</u>	<u>\$ 76,578</u>	<u>\$ (7,631,997)</u>	<u>\$ 183,001,730</u>

General obligation bonds mature serially and the capital appreciation bonds accrete in value through 2023. Debt service requirements for general obligation bonds are as follows:

Year Ended August 31,	Principal	Interest	Total
2018	\$ 4,665,000	\$ 8,900,206	\$ 13,565,206
2019	6,700,000	6,791,306	13,491,306
2020	6,340,000	7,210,063	13,550,063
2021	7,420,000	6,263,500	13,683,500
2022	7,750,000	5,892,800	13,642,800
2023-2027	30,545,000	25,097,900	55,642,900
2028-2032	38,400,000	17,428,750	55,828,750
2033-2037	47,270,000	8,571,750	55,841,750
2038	<u>10,705,000</u>	<u>460,750</u>	<u>11,165,750</u>
	<u>159,795,000</u>	<u>\$ 86,617,025</u>	<u>\$246,412,025</u>

A portion of the bonds sold in 2006, 2014, and 2015 were capital appreciation bonds, commonly referred to as “premium compound interest bonds”. These bonds were issued at a discount to their par or maturity value and will accrete interest until maturity. The following reflects the total accreted value of outstanding capital appreciation bonds at August 31, 2017.

Series	Accreted Value	Original Amount Outstanding	Ending Value Accreted Interest
Unlimited Tax Refunding Bonds, Series 2006	\$ 589,374	\$ 45,000	\$ 616,491
Unlimited Tax Refunding Bonds, Series 2014	152,524	150,000	160,748
Unlimited Tax Refunding Bonds, Series 2015	<u>1,906,987</u>	<u>1,255,000</u>	<u>1,948,224</u>
Total	<u>\$ 2,648,885</u>	<u>\$ 1,450,000</u>	<u>\$ 2,725,463</u>

Waco Independent School District

Notes to the Financial Statements

For the Year Ended August 31, 2017

There are a number of limitations and restrictions contained in the general obligation bond indenture. The District is in compliance with all significant limitations and restrictions at August 31, 2017. The District's interest and sinking (I&S) ad valorem tax rate is subject to a \$0.50 tax rate cap limitation. The District's I&S tax rate for the 2016 tax year was \$0.23000.

As of August 31, 2017, the District had no authorized but unissued unlimited tax bonds.

Lease revenue bonds

The Waco Independent School District Public Facilities Corporation ("PFC") was created in February 1999 for the purpose of constructing a stadium facility for the District. In October, 1999, the PFC issued lease revenue bonds in the amount of \$4,300,000 and signed a lease agreement with the District for use of the stadium. Annual lease payments approximate the debt service requirements for the lease revenue bonds. The District contributed \$8,539,000 toward the construction of the stadium. The PFC is included as a blended component unit within the reporting entity. As such, capital assets and long-term debt of the PFC are included in the District's government-wide statement of net position. Debt service requirements for the lease revenue bonds are as follows:

Year Ended August 31,	Principal	Interest	Total
2018	\$ 310,000	\$ 45,375	\$ 355,375
2019	325,000	27,913	352,913
2020	345,000	9,487	354,487
	<u>\$ 980,000</u>	<u>\$ 82,775</u>	<u>\$ 1,062,775</u>

Arbitrage

The Federal Tax Reform Act of 1986 enacted section 148(f) of the Internal Revenue Code, relating to arbitrage rebate requirements, which generally provides that, in order for interest on any issue of obligation to be excluded from gross income, the issuer must rebate to the United States the sum of (1) the excess of the amount earned on all "non-purpose investments" acquired with "gross proceeds" of the issue over the amount which would have been earned if such investments had been invested at a yield equal to the yield on the issue, and (2) the earnings on such excess earnings.

The Act requires issuers of tax-exempt debt to make payments to the U.S. Treasury for investment income received at yields that exceed the issuer's tax exempt borrowing rates. The Treasury requires payment for each issue every five years. The estimated liability is updated annually for all tax-exempt issuances or changes in yields until such time payment of the calculated liability is due.

The District estimates and updates its liability annually for all tax-exempt issuances, as required by law. Final arbitrage calculations were prepared for the 2008 series bonds and annual calculations were prepared for the 2009 series bonds. As of August 31, 2017, there was no arbitrage rebate liability on the issued bonds.

Waco Independent School District

Notes to the Financial Statements

For the Year Ended August 31, 2017

Note 10. Pension obligations under defined benefit retirement plan

Plan description

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

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

Pension plan fiduciary net position

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

Benefits provided

TRS provides service and disability retirement, as well as death and survivor benefits, to eligible employees (and their beneficiaries) of public and higher education in Texas. The pension formula is calculated using 2.3 percent (multiplier) times the average of the five highest annual creditable salaries times years of credited service to arrive at the annual standard annuity except for members who are grandfathered, the three highest annual salaries are used. The normal service retirement is at age 65 with 5 years of credited service or when the sum of the member's age and years of credited service equals 80 or more years. Early retirement is at age 55 with 5 years of service credit or earlier than 55 with 30 years of service credit. There are additional provisions for early retirement if the sum of the member's age and years of service credit total at least 80, but the member is less than age 60 or 62 depending on date of employment, or if the member was grandfathered in under a previous rule. There are no automatic post-employment benefit changes; including automatic COLAs. Ad hoc post-employment benefit changes, including ad hoc COLAs can be granted by the Texas Legislature as noted in the Plan description in (1) above.

Contributions

Contribution requirements are established or amended pursuant to Article 16, section 67 of the Texas Constitution which requires the Texas legislature to establish a member contribution rate of not less than 6% of the member's annual compensation and a state contribution rate of not less than 6% and not more than 10% of the aggregate annual compensation paid to members of the system during the fiscal year. Texas Government Code section 821.006 prohibits benefit improvements, if as a result of the particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action.

Waco Independent School District

Notes to the Financial Statements

For the Year Ended August 31, 2017

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

	Contribution Rates		
	2017	2016	2015
Member	7.7%	7.2%	6.7%
Non-Employer Contributing Entity (State)	6.8%	6.8%	6.8%
Employers/District	6.8%	6.8%	6.8%

The contribution amounts for the District's fiscal year 2017 are as follows:

Employer Contributions	\$ 3,256,599
Member Contributions	\$ 7,408,804
Non-Employer Contributing Entity On-Behalf Contributions (State)	\$ 4,564,186

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

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

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

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

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

Waco Independent School District

Notes to the Financial Statements

For the Year Ended August 31, 2017

Actuarial assumptions

The total pension liability in the August 31, 2016 actuarial valuation was determined using the following actuarial assumptions:

Valuation date	August 31, 2016
Actuarial cost method	Individual Entry Age Normal
Asset valuation method	Market Value
Actuarial assumptions:	
Single discount rate	8.0%
Long-term expected investment rate of return	8.0%
Municipal bond rate	N/A*
Last year ending August 31 in the 2016 to 2115 projection period (100 years)	2115
Inflation	2.5%
Salary increases including inflation	3.5% to 9.5%
Benefit changes during the year	None
Ad hoc post-employment benefit changes	None

**If a municipal bond rate was to be used, the rate would be 2.84% as of August 2016 (i.e., the weekly rate closest to but not later than the Measurement Date). The source for the rate is the Federal Reserve Statistical Release H.15, citing the Bond Buyer Index of general obligation bonds with 20 years to maturity and an average AA credit rating.*

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

Discount rate

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

Waco Independent School District

Notes to the Financial Statements

For the Year Ended August 31, 2017

Best estimates of geometric real rates of return for each major asset class included in the System's target asset allocation as of August 31, 2016 are summarized as follows:

Asset Class	Target Allocation	Long-term Expected Geometric Real Rate of Return	Expected Contribution to Long-term Portfolio Returns
Global Equity			
U.S.	18%	4.6%	1.0%
Non-U.S. Developed	13%	5.1%	0.8%
Emerging Markets	9%	5.9%	0.7%
Directional Hedge Funds	4%	3.2%	0.1%
Private Equity	13%	7.0%	1.1%
Stable Value			
U.S. Treasuries	11%	0.7%	0.1%
Absolute Return	0%	1.8%	0.0%
Stable Value Hedge Funds	4%	3.0%	0.1%
Cash	1%	-0.2%	0.0%
Real Return			
Global Inflation Linked Bonds	3%	0.9%	0.0%
Real Assets	16%	5.1%	1.1%
Energy and Natural Resources	3%	6.6%	0.2%
Commodities	0%	1.2%	0.0%
Risk Parity	5%	6.7%	0.3%
Inflation Expectation			2.2%
Alpha			1.0%
Total	100%		8.7%

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

Discount rate sensitivity analysis

The following schedule shows the impact of the net pension liability for TRS calculated using the discount rate of 8.0%, as well as the District's proportionate share of the respective net pension liability if it was calculated using a discount rate that is 1-percentage point lower (7%) or 1-percentage point greater (9%) than the current rate.

	1% Decrease in Discount Rate (7.0%)	Discount Rate (8.0%)	1% Increase in Discount Rate (9.0%)
District's proportionate share of the net pension liability:	\$ 57,485,042	\$ 37,143,113	\$ 19,889,063

Waco Independent School District

Notes to the Financial Statements

For the Year Ended August 31, 2017

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions

At August 31, 2017, the District reported a liability of \$37,143,113 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of the collective net pension liability	\$ 37,143,113
State's proportionate share that is associated with the District	<u>51,722,852</u>
Total	<u>\$ 88,865,965</u>

The net pension liability was measured as of August 31, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The employer's proportion of the net pension liability was based on the employer's contributions to the pension plan relative to the contributions of all employers to the plan for the period September 1, 2015 thru August 31, 2016.

At August 31, 2016 the employer's proportion of the collective net pension liability was 0.098292073% which was a decrease of 0.002739727% from its proportion measured as of August 31, 2015. The change in the employer's proportion of the net pension liability was primarily due to proportionality adjustments for contributions.

Changes since the prior actuarial valuation

There were no changes to the actuarial assumptions or other inputs that affected measurement of the total pension liability since the prior measurement period.

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

For the year ended August 31, 2017, the District recognized pension expense of \$8,634,650 and revenue of \$5,367,599 for support provided by the State.

At August 31, 2017, the District reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experiences	\$ 582,397	\$ 1,109,072
Changes in actuarial assumptions	1,132,055	1,029,558
Difference between projected and actual investment earnings	3,145,203	-
Changes in proportion and differences between the employer's contributions and the proportionate share of contributions	10,092,951	2,468
Contributions paid to TRS subsequent to the measurement date	<u>3,256,599</u>	
Total	<u>\$18,209,205</u>	<u>\$ 2,141,098</u>

The \$3,256,599 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended August 31, 2018.

Waco Independent School District

Notes to the Financial Statements

For the Year Ended August 31, 2017

Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended August 31,	Pension Expense Amount
2018	\$ 2,318,719
2019	2,318,719
2020	4,324,882
2021	2,164,568
2022	1,508,083
Thereafter	176,537
Total	<u>\$ 12,811,508</u>

Note 11. Retiree health 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 post-employment health care plan administered by the Teacher Retirement System of Texas (TRS). TRS-Care Retired Plan provides health care coverage for certain persons (and their dependents) who retired under 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 supplementary information for TRS-Care. That report may be obtained by visiting the TRS website at www.trs.state.tx.us; by writing to the Communications Department of the Teacher Retirement System of Texas at 100 Red River Street, Austin, TX 78701; or by calling 1-800-223-8778.

Funding policy

Contribution requirements are not actuarially determined but are established each biennium by the Texas legislature. Texas Insurance Code Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. Funding for free basic coverage is provided by the program based upon public school district payroll. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. Funding for optional coverage is provided by those participants selecting the optional coverage.

Contribution rates and amounts are shown in the table below for fiscal years 2017, 2016, and 2015.

Contribution Rates and Contribution Amounts						
Year	Member		State		School District	
	Rate	Amount	Rate	Amount	Rate*	Amount
2017	0.65%	\$ 625,419	1.00%	\$ 843,946	0.55%	\$ 529,200
2016	0.65%	591,577	1.00%	795,331	0.55%	500,562
2015	0.65%	539,722	1.00%	702,731	0.55%	456,688

*For employees funded by federal programs, the federal programs are required to contribute 1.00%.

Waco Independent School District

Notes to the Financial Statements

For the Year Ended August 31, 2017

Federal government retiree drug subsidy - Medicare, Part D

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, created an outpatient prescription drug benefit program (known as Medicare Part D) and a Retiree Drug Subsidy (RDS) program which were effective January 1, 2006. One of the provisions of Medicare Part D allows for the Texas Public School Retired Employee Group Insurance Program (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 years ended August 31, 2017, 2016, and 2015, the subsidy payments received by TRS-Care on behalf of the District were \$285,161, \$350,191, and \$336,636, respectively. On-behalf payments must be recognized as equal revenues and expenditures/expenses by each reporting entity.

Note 12. Compensated Absences

It is the District's policy to permit some employees to accumulate earned, but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the District does not have a policy to pay any amounts when employees separate from service. All vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured.

Note 13. Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, errors and omissions, injuries to employees, and natural disasters. There were no significant reductions in insurance coverage from the prior year. The District purchases commercial insurance to cover general liabilities. There have been no claim settlements in excess of insurance coverage in the last three years.

Workers' compensation

During the year ended August 31, 2017, 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. 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 liability.

The Fund and its members are protected against higher than expected claims costs through the purchase of stop loss coverage for any claim in excess of the Fund's self-insured retention of \$2 million. The Fund uses the services of an independent actuary to determine reserve adequacy and fully funds those reserves. As of August 31, 2016, the Fund carries a discounted reserve of \$51,843,324 for future development on reported claims and claims that have been incurred but not yet reported. For the year ended August 31, 2017, the Fund anticipated no additional liability to members beyond their contractual obligations for payment of contributions and reimbursable aggregate deductible.

For the 2016-17 plan year, the excess coverage insurance policy covers claims in excess of \$790,647. The Fund performs an evaluation of workers' compensation claims submitted incidents occurring prior to August 31, 2017, and has projected open claims and incurred but not reported claims for all years will cost \$389,973. The District has not significantly reduced insurance coverage during the past three years or had settlements which exceeded coverage.

Waco Independent School District

Notes to the Financial Statements

For the Year Ended August 31, 2017

The following is a reconciliation of changes in the aggregate liabilities for claims for the last three fiscal years:

Fiscal Year	Beginning of Year Accrual	Claims Payments	Current Year Expense	End of Year Accrual
2017	\$ 311,089	\$ 205,865	\$ 284,749	\$ 389,973
2016	492,883	200,989	19,195	311,089
2015	741,970	280,687	31,600	492,883

Auto liability, general liability, and legal liability

During the year ended August 31, 2017, the District participated in the following TASB Risk Management Fund programs:

- Auto liability
- General liability
- Legal liability

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

The Fund purchases stop-loss coverage for protection against catastrophic and larger than anticipated claims for its Auto, Liability and Property programs. The terms and limits of the stop-loss program vary by line of coverage. The Fund uses the services of an independent actuary to determine the adequacy of reserves and fully funds those reserves. For the year ended August 31, 2017, the Fund anticipates that the District has no additional liability beyond the contractual obligations for payment of contributions.

Note 14. Shared service arrangements

McLennan County Challenge Academy – Juvenile Justice Alternative Education Program

The District is the fiscal agent for the McLennan County Challenge Academy, a Shared Service Arrangement (SSA) which provides discretionary and mandatory juvenile justice alternative education programs to member districts. All services are provided by the fiscal agent. In addition to State funding, member districts provide funds to the fiscal agent. According to guidance provided in the TEA's Resource Guide, the District has accounted for the fiscal agent's activities for this SSA in a Special Revenue Fund.

Waco Independent School District

Notes to the Financial Statements

For the Year Ended August 31, 2017

Expenditures of the SSA are summarized by member district on the following schedule.

Member District	Percent of Students	Allocated Expenditures
Axtell	0.38%	\$ 2,840
Bruceville-Eddy	0.02%	149
China Spring	0.30%	2,242
Connally	4.94%	36,920
Crawford	0.13%	972
Gholson	0.11%	822
La Vega	1.42%	10,613
Lorena	0.07%	523
Mart	0.37%	2,765
McGregor	0.34%	2,541
Midway	4.43%	33,108
Moody	0.42%	3,139
Riesel	0.05%	374
Robinson	5.36%	40,059
Waco	81.13%	606,333
West	0.53%	3,961
Total	100.00%	\$ 747,360

Regional Day School for the Deaf

The District is also the fiscal agent for an SSA which provides special education services for the deaf to member districts. All services are provided by the fiscal agent. In addition to State and Federal program revenues, the member districts provide funds to the fiscal agent. According to guidance provided in the TEA's Resource Guide, the District accounts for the fiscal agent's activities of the SSA in a Special Revenue Fund.

Expenditures of the SSA are summarized by member district as follows:

Member District	Percent of Students	Allocated Expenditures
Axtell	0.49%	\$ 3,698
Bruceville-Eddy	4.75%	35,847
Chilton	3.29%	24,829
Connally	8.04%	60,676
La Vega	3.29%	24,829
Lorena	0.49%	3,698
Marlin	0.49%	3,698
Mart	3.29%	24,829
Midway	6.58%	49,658
Penelope	0.49%	3,698
Rapoport Academy	0.49%	3,698
Robinson	3.29%	24,829
Waco	57.95%	437,333
West	0.49%	3,698
Whitney	6.58%	49,658
Total	100.00%	\$ 754,676

Waco Independent School District

Notes to the Financial Statements

For the Year Ended August 31, 2017

Note 15. Nonmonetary transactions

During 2017, the District received textbooks purchased by the State of Texas for the benefit of the District for a purchase price of \$1,042,589. The District receives the textbooks as part of state funding for textbook allotment. The textbooks have been recorded in the amount of \$1,042,589. In a special revenue fund as both state revenues and expenditures, which represents the amount of consideration given by the State of Texas.

Note 16. Litigation, commitments and contingencies

State and Federal Programs -- The District participates in a number of federal award programs. Although the programs have been audited in accordance with the provisions of U.S. Office of Management and Budget Uniform Guidance through August 31, 2017, these programs are still subject to financial and compliance audits by grantor agencies. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the District expects any such amounts to be immaterial.

As of August 31, 2017, the District was party to construction contracts totaling \$1,783,617 with a remaining commitment of \$972,49.

The District is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will have no material adverse effect on the District's financial position, results of operations, or liquidity.

Required Supplementary Information

Waco Independent School District

Exhibit G-1

**Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
General Fund
For the Year Ended August 31, 2017**

Data Control Codes		Budgeted Amounts		Actual Amounts (GAAP Basis)	Variances With Final Budget
		Original	Final		
Revenues					
5700	Local and intermediate sources	\$ 60,119,239	\$ 60,401,049	\$ 60,602,832	\$ 201,783
5800	State program revenues	72,363,467	73,403,467	74,767,481	1,364,014
5900	Federal program revenues	3,730,100	4,107,940	4,887,265	779,325
5020	Total revenues	136,212,806	137,912,456	140,257,578	2,345,122
Expenditures					
Current:					
6011	Instruction	74,495,065	75,790,061	74,405,911	1,384,150
6012	Instructional resources and media services	904,612	904,842	873,881	30,961
6013	Curriculum and instructional staff development	3,807,336	3,755,879	3,601,444	154,435
6021	Instructional leadership	2,802,539	2,787,956	2,650,289	137,667
6023	School leadership	9,382,884	9,430,988	9,219,380	211,608
6031	Guidance, counseling, and evaluation services	3,665,741	3,588,518	3,513,239	75,279
6032	Social work services	937,168	866,907	762,438	104,469
6033	Health services	1,139,009	1,139,009	1,121,320	17,689
6034	Student transportation services	3,930,754	5,319,771	3,201,247	2,118,524
6036	Extracurricular activities	3,917,223	4,460,899	4,293,163	167,736
6041	General administration	5,067,130	5,460,831	5,017,758	443,073
6051	Plant maintenance and operations	16,773,540	22,103,152	18,016,774	4,086,378
6052	Security and monitoring services	2,177,472	2,204,003	2,044,705	159,298
6053	Data processing services	2,655,799	2,947,875	2,687,285	260,590
6061	Community services	674,291	750,865	693,987	56,878
Debt service:					
6071	Principal on long-term debt	310,000	310,000	290,000	20,000
6072	Interest on long-term debt	62,735	62,735	61,764	971
6073	Bond issuance cost and fees	4,000	4,000	-	4,000
Capital outlay:					
6081	Facilities acquisition and construction	-	2,198,676	914,245	1,284,431
Intergovernmental:					
6093	Payments to fiscal agent/member districts of shared services arrangements	440,000	440,000	430,368	9,632
6095	Payments to Juvenile Justice Alternative Education Program	495,000	780,000	558,366	221,634
6097	Payments to tax increment fund	5,121,873	5,121,873	4,788,975	332,898
6099	Other intergovernmental charges	718,380	723,380	711,202	12,178
6030	Total expenditures	139,482,551	151,152,220	139,857,741	11,294,479
1100	Excess (deficiency) of revenues over (under) expenditures	(3,269,745)	(13,239,764)	399,837	13,639,601
Other Financing Sources (Uses)					
7912	Sale of real and personal property	-	-	48,952	48,952
8911	Transfers out	(548,055)	(548,055)	(1,543,542)	(995,487)
	Total other financing sources	(548,055)	(548,055)	(1,494,590)	(946,535)
1200	Net change in fund balance	(3,817,800)	(13,787,819)	(1,094,753)	12,693,066
0100	Fund balance, beginning	41,654,901	45,917,241	45,917,241	-
3000	Fund balance, ending	\$ 37,837,101	\$ 32,129,422	\$ 44,822,488	\$ 12,693,066

Waco Independent School District

Exhibit G-2

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual**National School Breakfast and Lunch Fund****For the Year Ended August 31, 2017**

Data Control Codes		Budgeted Amounts		Actual Amounts	Variances With Final
		Original	Final	(GAAP Basis)	Budget
Revenues					
5700	Local and intermediate sources	\$ 722,535	\$ 721,835	\$ 751,999	\$ 30,164
5800	State program revenues	55,000	55,000	53,714	(1,286)
5900	Federal program revenues	8,854,378	8,854,378	9,125,948	271,570
5020	Total revenues	9,631,913	9,631,213	9,931,661	300,448
Expenditures					
Current:					
6035	Food services	9,631,913	10,412,006	9,408,850	1,003,156
6030	Total expenditures	9,631,913	10,412,006	9,408,850	1,003,156
1200	Net change in fund balance	-	(780,793)	522,811	1,303,604
0100	Fund balance, beginning	1,612,906	1,728,453	1,728,453	-
3000	Fund balance, ending	\$ 1,612,906	\$ 947,660	\$ 2,251,264	\$ 1,303,604

Waco Independent School District**Notes to the Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual
General Fund and National School Breakfast and Lunch Fund
For the Year Ended August 31, 2017****Note 17. Budgetary Information**

Each school district in Texas is required by law to prepare annually a budget of anticipated revenues and expenditures for the General, National School Breakfast and Lunch Program, and Debt Service funds. For fiscal years beginning September 1, the Texas Education Code requires the budget to be prepared not later than August 20 and adopted by August 31 of each year. The District's administration determines budgetary funding priorities and the budgets are prepared in the same basis of accounting that is used for reporting, in accordance with generally accepted accounting principles. Final budget allocations are determined by the Board, which subsequently establishes a tax rate sufficient to support the approved budget. The annual budget, which is prepared on the modified accrual basis of accounting, must be adopted by the Board at a scheduled meeting after giving ten days' public notice of the meeting.

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General, the National School Breakfast and Lunch Program, and the Debt Service funds. Annual budgets are not legally adopted for capital projects funds; however, project budgets are specifically approved by the Board of Trustees. All annual appropriations lapse at fiscal year-end.

The District's administration continuously monitors the budget, performing reviews during the year in which budget requirements are re-evaluated and revisions are recommended to the Board, as necessary. The Board must approve amendments to the budget at the fund and functional expenditure categories or revenue object accounts as defined by the TEA. Expenditures may not legally exceed budgeted appropriations, as amended, at the function level by fund. The administration may amend the budget without Board approval if appropriations are not transferred between functions.

During fiscal year 2017, General Fund appropriations were increased by \$11.7 million. Budgeted appropriations increased for the following: \$5.5 million for the re-appropriation of budgets renovations and major repairs projects which were not completed at August 31, 2017; \$1.2 million for purchase orders from fiscal year 2016 that were honored in fiscal year 2017; \$3.6 million in new renovations and major repair projects; \$0.9 million in E-Rate and other projects funded through additional revenue sources; \$0.3 million in additional participation costs in the Juvenile Justice Alternative Education Program; and another \$0.2 million for various Board of Trustees initiatives, including legal fees and the superintendent search.

During fiscal year 2017, National School Breakfast and Lunch Fund appropriations were increased by \$0.2 million for the purchase of a food truck; \$0.1 million for purchase orders from fiscal year 2016 that were honored in fiscal year 2017; and \$0.5 million for the purchase of new equipment for newly renovated offices and demonstration kitchen for Child Nutrition Services.

Functional expenditures in either fund did not exceed appropriations for the fiscal year ended August 31, 2017.

Waco Independent School District

Exhibit G-3

Schedule of the District's Proportionate Share of the Net Pension Liability**Teacher Retirement System****For the Year Ended August 31, 2017**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
District's proportion of the net pension liability (asset)	0.0982921%	0.1010318%	0.0531259%
District's proportionate share of the net pension liability (asset)	\$ 37,143,113	\$ 35,713,397	\$ 14,190,662
State's proportionate share of the net pension liability (asset) associated with the District	<u>51,722,852</u>	<u>45,090,294</u>	<u>42,706,018</u>
Total	<u>\$ 88,865,965</u>	<u>\$ 80,803,691</u>	<u>\$ 56,896,680</u>
District's covered employee payroll	\$ 91,012,010	\$ 83,034,215	\$ 78,027,228
District's proportionate share of the net pension liability (asset) as a percentage of its covered employee payroll	40.81%	43.01%	18.19%
Plan fiduciary net position as a percentage of the total pension liability	78.00%	78.43%	83.25%

Note: GASB 68, Paragraph 81 requires that the information on this schedule be data from the period corresponding with the periods covered as of the measurement dates of August 31, 2016 for Year 2017, August 31, 2015 for Year 2016, and August 31, 2014 for Year 2015.

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

Waco Independent School District

Exhibit G-4

Schedule of the District Contributions**Teacher Retirement System****For the Year Ended August 31, 2017**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 3,256,599	\$ 3,122,988	\$ 2,991,594
Contribution in relation to the contractually required contribution	<u>3,256,599</u>	<u>3,122,988</u>	<u>2,991,594</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered employee payroll	\$ 96,218,234	\$ 91,012,010	\$ 83,034,215
Contributions as a percentage of covered employee payroll	3.38%	3.43%	3.60%

Note: GASB 68, Paragraph 81.2.b requires that the data in this schedule be presented as of the District's respective fiscal year as opposed to the time periods covered by the measurement dates.

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

Waco Independent School District
Notes to the Schedule of District's Proportionate Share of the Net Pension Liability and the
Schedule of the District's Contributions
For the Year Ended August 31, 2017

Note 18. Pension Information

Changes of Benefit Terms

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

Changes of Assumptions

There were no changes in the actuarial assumptions or other inputs that affected the measurement of the total pension liability since the prior measurement period.

Actuarial Assumptions for Contribution Rate

The information presented in the following table was used in the actuarial valuation for determining the actuarially determined contribution rate. The assumptions are as follows:

Valuation date	August 31, 2016
Actuarial cost method	Ultimate entry age normal
Amortization method	Level percentage of payroll, floating
Remaining amortization period	33 years
Asset valuation method	5 year smoothed market
Actuarial assumptions:	
Inflation	2.50%
Salary increases	3.50% to 9.50% including inflation
Investment rate of return	8.00%
Ad hoc post-employment benefit changes	None
Benefit changes during the year	None

Combining and Other Statements

Non-major Governmental Funds

Special Revenue Funds

Special Revenue Funds are used to account for specific revenue sources which are legally restricted to expenditures for specific purposes.

ESEA, Title X, Part C – Education for the Homeless Children and Youth (Fund 206)

This fund is used to account, on a project basis, for funds allocated to local educational agencies to enable schools to provide a variety of staff development and supplemental services, including in-service training, counseling, psychological services and tutoring. This program is authorized under P.L. 107-110, McKinney-Vento Homeless Education Assistance Improvement of 2001, amended by NCLB Act of 2001, Title X, Part C.

ESEA, Title I, Part A – Improving Basic Programs (Fund 211)

This fund is used to account, on a project basis, for funds allocated to local educational agencies to enable schools to provide opportunities for children served to acquire the knowledge and skills contained in the challenging State content standards and to meet the challenging State performance standards developed for all children. This program is authorized under P.L. 107-110.

IDEA, Part B, Formula (Fund 224)

This fund is used to account, on a project basis, for funds granted to operate educational programs for children with disabilities. This funding also includes capacity building and improvement sub-grants. This program is authorized under P.L. 108-446.

IDEA, Part B, Preschool (Fund 225)

This fund is used to account, on a project basis, for funds granted for preschool children with disabilities. This program is authorized under P.L. 105-17.

Summer Feeding Program, Texas Department of Agriculture (Fund 242)

This fund is used to account, on a project basis, for funds that are awarded for meals provided to the community based on the average number of daily participants.

Career and Technical, Basic Grant (Fund 244)

This fund is used to account, on a project basis, for funds granted to provide career and technology education to develop new and/or improve career and technology education programs for paid and unpaid employment. Full participation in the basic grant is from individuals who are members of special populations. This program is authorized by P.L. 109-270.

Career and Technical, Apprenticeship (Fund 250)

This fund is used to account, on a project basis, for funds granted for work-site programs such as: cooperative training, internships, joint programs, and services and activities with community-based organizations, work study and apprenticeship programs. This program is authorized by P.L. 105-332.

ESEA, Title II, Part A – Teacher and Principal Training and Recruiting (Fund 255)

This fund is used to provide financial assistance to LEAs to increase student academic achievement through improving teacher and principal quality and increasing the number of highly qualified teachers in classrooms and highly qualified principals in schools, and hold LEAs accountable for improving student academic achievement. This program is authorized under P.L. 107-110.

ESEA, Title III, Part A, English Language Acquisition and Language Enhancement (Fund 263)

This fund is used to account, on a project basis, for funds granted to improve the education of limited English proficient children, by assisting the children to learn English and meet State academic content and student academic achievement standards. This program is authorized under P.L. 107-110.

ESEA, Title IV, Part B – 21st Century Community Learning Centers (Fund 265)

This fund is used to account, on a project basis, for funds granted to provide opportunities for communities to establish or expend activities in community learning centers that provide opportunities for academic enrichment and additional services to students and literary and related educational development for families of students. This program is authorized under P.L. 107-110.

ESEA, Title I, School Improvement Program (SIP) Academy Grant (Fund 276)

This fund is used to account, on a project basis, for funds granted to address the needs of campuses in improvement, corrective action, and restructuring in order to improve student achievement in conjunction with the Title I, School Improvement Program funds to leverage change and improve technical assistance through targeting activities towards measurable outcomes. This program is authorized under P.L. 107-10.

Other Federally Funded Special Revenue Funds (Fund 289)

These funds are used to account, on a project basis, for federally funded special revenue funds that are not otherwise listed.

Shared Services Arrangements – IDEA, Part B, Discretionary (Fund 315)

This fund is used by the fiscal agent of a shared services arrangement to account, on a project basis, for funds used to support the Regional Day School for the Deaf programs and other emerging needs.

Shared Services Arrangements – IDEA, Part B, Deaf (Fund 316)

This fund is used by the fiscal agent of a shared services arrangement to account, on a project basis, for funds used to support the Regional Day School for the Deaf in capacity building and improvement.

Shared Services Arrangements – IDEA, Part C, Early Intervention (Deaf) (Fund 340)

This fund is used by the fiscal agent of a shared services arrangement to account, on a project basis, for funds used to support the Regional Day School for the Deaf in providing direct services to hearing impaired infants to toddlers, age birth through two years of age.

Advanced Placement Incentives (Fund 397)

This fund is used to account, on a project basis, for funds awarded to school districts under the Texas Advanced Placement Award Incentive Program, TEC Chapter 28, Subchapter C.

State Textbook Fund (Fund 410)

This fund is used to account, on a project basis, for funds awarded to school districts under the instructional materials allotment, TEC Chapter 31, Subchapter B.

Other State Special Revenue Funds (Fund 429)

These are state funded special revenue funds not otherwise listed.

Shared Services Arrangements – Regional Day School for the Deaf (Fund 435)

This fund is used by the fiscal agent of a shared services arrangement to account, on a project basis, for funds allocated for staff and activities of the Regional Day School Program for the Deaf.

Shared Services Arrangements – Other State/Local Funded Educational Programs (Fund 459)

This fund is used by the fiscal agent of a shared services arrangements, not otherwise listed. Programs include the local funded component of the Regional Day School for the Deaf and the Juvenile Justice Alternative Education Program.

Campus Activity Funds (Fund 461)

This fund is used to account for transactions related to a principal's activity fund if the monies generated are not subject to recall by the school district's board of trustees into the general fund.

Other Locally Funded Special Revenue Funds (Fund 499)

These funds are locally funded special revenue funds not otherwise listed.

Capital Projects Funds

Capital Projects Funds are used to account, on a project basis, for projects financed by the proceeds from bond issues, or for capital projects otherwise mandated to be accounted for in this fund.

Waco Independent School District
Combining Balance Sheet
Nonmajor Governmental Funds
August 31, 2017

Data Control Codes		206	211	224
		ESEA, Title X, Part C - Education of Homeless Children and Youth	ESEA, Title I, Part A - Improving Basic Programs	IDEA, Part B Formula
Assets				
1110	Cash and cash equivalents	\$ -	\$ -	\$ -
1240	Receivables from other governments	9,750	1,060,599	386,196
1260	Due from other funds	-	-	-
1290	Other receivables	-	-	-
	Total assets	<u>\$ 9,750</u>	<u>\$ 1,060,599</u>	<u>\$ 386,196</u>
Liabilities				
2110	Accounts payable	\$ 1,430	\$ 127,124	\$ 31,838
2160	Accrued wages payable	2,157	134,095	89,663
2170	Due to other funds	6,163	715,379	264,609
2180	Due to other governments	-	84,001	86
2300	Unearned revenues	-	-	-
	Total liabilities	<u>9,750</u>	<u>1,060,599</u>	<u>386,196</u>
Fund Balances				
	Restricted fund balance:			
3470	Capital acquisition and contractual obligation	-	-	-
	Committed fund balance:			
3545	Other committed fund balance	-	-	-
3000	Total fund balances	<u>-</u>	<u>-</u>	<u>-</u>
4000	Total liabilities and fund balances	<u>\$ 9,750</u>	<u>\$ 1,060,599</u>	<u>\$ 386,196</u>

225	242	244	250	255	263
IDEA, Part B Preschool	Summer Feeding Program - Texas Department of Agriculture	Career and Technical, Basic Grant	Career and Technical, Apprenticeship	ESEA, Title II, Part A - Teacher and Principal Training and Recruiting	ESEA, Title III, Part A - English Language Acquisition and Enhancement
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
7,956	340,228	36,433	-	69,577	64,779
-	-	-	2	-	-
-	-	-	-	-	-
<u>\$ 7,956</u>	<u>\$ 340,228</u>	<u>\$ 36,433</u>	<u>\$ 2</u>	<u>\$ 69,577</u>	<u>\$ 64,779</u>
\$ 7,068	\$ 57,552	\$ 3,008	\$ -	\$ 5,010	\$ 29,172
-	1,210	5,416	-	14,011	2,143
880	216,600	27,999	-	50,554	24,846
8	-	10	2	2	8,618
-	64,866	-	-	-	-
<u>7,956</u>	<u>340,228</u>	<u>36,433</u>	<u>2</u>	<u>69,577</u>	<u>64,779</u>
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>\$ 7,956</u>	<u>\$ 340,228</u>	<u>\$ 36,433</u>	<u>\$ 2</u>	<u>\$ 69,577</u>	<u>\$ 64,779</u>

Waco Independent School District
Combining Balance Sheet
Nonmajor Governmental Funds
August 31, 2017

		265	276	289
Data		ESEA, Title IV,	ESEA, Title I,	
Control		Part B - 21st	School	Other
Codes		Century	Improvement	Federally Funded
		Community	Program	Special Revenue
		Learning Centers	Academy Grant	Funds
Assets				
1110	Cash and cash equivalents	\$ -	\$ -	\$ -
1240	Receivables from other governments	89,274	529,332	8,298
1260	Due from other funds	-	-	-
1290	Other receivables	-	-	-
Total assets		<u>\$ 89,274</u>	<u>\$ 529,332</u>	<u>\$ 8,298</u>
Liabilities				
2110	Accounts payable	\$ 8,784	\$ 39,416	\$ -
2160	Accrued wages payable	2,015	32,605	-
2170	Due to other funds	78,475	457,311	6,320
2180	Due to other governments	-	-	1,978
2300	Unearned revenues	-	-	-
Total liabilities		<u>89,274</u>	<u>529,332</u>	<u>8,298</u>
Fund Balances				
Restricted fund balance:				
3470	Capital acquisition and contractual obligation	-	-	-
Committed fund balance:				
3545	Other committed fund balance	-	-	-
3000	Total fund balances	<u>-</u>	<u>-</u>	<u>-</u>
4000	Total liabilities and fund balances	<u>\$ 89,274</u>	<u>\$ 529,332</u>	<u>\$ 8,298</u>

315	316	340	397	410	429
Shared Services Arrangements - IDEA, Part B, Discretionary	Shared Services Arrangements - IDEA, Part B, Deaf	Shared Services Arrangements - IDEA, Part C, Deaf	Advanced Placement Incentives	State Textbook Fund	Other State Funded Special Revenue Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1,875	-	-	-	-	99,584
-	-	-	22,676	116,842	18,835
-	-	-	-	-	16,434
<u>\$ 1,875</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 22,676</u>	<u>\$ 116,842</u>	<u>\$ 134,853</u>
\$ -	\$ -	\$ -	\$ -	\$ 66,244	\$ 58,021
105	-	-	-	-	2,274
1,770	-	-	-	-	32,368
-	-	-	-	-	5
-	-	-	22,676	50,598	42,185
<u>1,875</u>	<u>-</u>	<u>-</u>	<u>22,676</u>	<u>116,842</u>	<u>134,853</u>
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>\$ 1,875</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 22,676</u>	<u>\$ 116,842</u>	<u>\$ 134,853</u>

Waco Independent School District
Combining Balance Sheet
Nonmajor Governmental Funds
August 31, 2017

Data Control Codes		435	459	461
		Shared Services Arrangements - Regional Day School for the Deaf	Shared Services Arrangements - Other State and Locally Funded Programs	Campus Activity Funds
Assets				
1110	Cash and cash equivalents	\$ -	\$ -	\$ 601,806
1240	Receivables from other governments	10,747	49,882	-
1260	Due from other funds	-	122,225	-
1290	Other receivables	-	-	-
	Total assets	<u>\$ 10,747</u>	<u>\$ 172,107</u>	<u>\$ 601,806</u>
Liabilities				
2110	Accounts payable	\$ -	\$ 1,862	\$ 28,399
2160	Accrued wages payable	4,393	44,557	-
2170	Due to other funds	6,354	-	24,919
2180	Due to other governments	-	-	-
2300	Unearned revenues	-	125,688	-
	Total liabilities	<u>10,747</u>	<u>172,107</u>	<u>53,318</u>
Fund Balances				
	Restricted fund balance:			
3470	Capital acquisition and contractual obligation	-	-	-
	Committed fund balance:			
3545	Other committed fund balance	-	-	548,488
3000	Total fund balances	<u>-</u>	<u>-</u>	<u>548,488</u>
4000	Total liabilities and fund balances	<u>\$ 10,747</u>	<u>\$ 172,107</u>	<u>\$ 601,806</u>

499		699	
Other Locally Funded Special Revenue Funds	Total Nonmajor Special Revenue Funds	Capital Projects Funds	Total Nonmajor Governmental Funds
\$ -	\$ 601,806	\$ 1,136,669	\$ 1,738,475
-	2,764,510	-	2,764,510
219,614	500,194	-	500,194
172,677	189,111	-	189,111
<u>\$ 392,291</u>	<u>\$ 4,055,621</u>	<u>\$ 1,136,669</u>	<u>\$ 5,192,290</u>
\$ 67,174	\$ 532,102	\$ 291,230	\$ 823,332
60,855	395,499	-	395,499
64,142	1,978,689	-	1,978,689
-	94,710	-	94,710
200,120	506,133	-	506,133
<u>392,291</u>	<u>3,507,133</u>	<u>291,230</u>	<u>3,798,363</u>
-	-	845,439	845,439
-	548,488	-	548,488
-	548,488	845,439	1,393,927
<u>\$ 392,291</u>	<u>\$ 4,055,621</u>	<u>\$ 1,136,669</u>	<u>\$ 5,192,290</u>

Waco Independent School District
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended August 31, 2017

Data Control Codes	206 ESEA, Title X, Part C - Education of Homeless Children and Youth	211 ESEA, Title I, Part A - Improving Basic Programs	224 IDEA, Part B Formula
Revenues			
5700 Local and intermediate sources	\$ -	\$ -	\$ -
5800 State program revenues	-	-	-
5900 Federal program revenues	73,409	7,073,698	2,830,316
5020 Total revenues	73,409	7,073,698	2,830,316
Expenditures			
Current:			
6011 Instruction	9,167	3,786,580	1,328,021
6012 Instructional resources and media services	-	-	-
6013 Curriculum and instructional staff development	-	2,598,787	47,362
6021 Instructional leadership	64,242	237,322	153,191
6023 School leadership	-	87,643	-
6031 Guidance, counseling, and evaluation services services	-	2,562	1,296,708
6032 Social work services	-	-	799
6033 Health services	-	13,692	-
6035 Food services	-	-	-
6036 Extracurricular activities	-	-	-
6041 General administration	-	-	-
6051 Plant maintenance and operations	-	-	-
6052 Security and monitoring services	-	230	-
6061 Community services	-	346,882	4,235
Capital outlay:			
6081 Facilities acquisition, improvements, and maintenance	-	-	-
Intergovernmental:			
6093 Payments to fiscal agent/member districts of shared services arrangements	-	-	-
6030 Total expenditures	73,409	7,073,698	2,830,316
1100 Excess (deficiency) of revenues over (under) expenditures	-	-	-
Other Financing Sources (Uses)			
7915 Transfers in	-	-	-
Total other financing sources (uses)	-	-	-
1200 Net change in fund balances	-	-	-
0100 Fund balances, beginning	-	-	-
3000 Fund balances, ending	\$ -	\$ -	\$ -

225	242	244	250	255	263
IDEA, Part B Preschool	Summer Feeding Program - Texas Department of Agriculture	Career and Technical, Basic Grant	Career and Technical, Apprenticeship	ESEA, Title II, Part A - Teacher and Principal Training and Recruiting	ESEA, Title III, Part A - English Language Acquisition and Enhancement
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	30,931	-	-
24,844	519,281	290,596	16,622	878,615	232,984
24,844	519,281	290,596	47,553	878,615	232,984
24,844	-	48,468	-	128,491	183,202
-	-	-	-	-	-
-	-	29,420	-	713,386	49,782
-	-	149,478	-	36,738	-
-	-	-	-	-	-
-	-	63,230	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	519,281	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	47,553	-	-
-	-	-	-	-	-
-	-	-	-	-	-
24,844	519,281	290,596	47,553	878,615	232,984
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

Waco Independent School District
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended August 31, 2017

Data Control Codes		265 ESEA, Title IV, Part B - 21st Century Community Learning Centers	276 ESEA, Title I, School Improvement Program Academy Grant	289 Other Federally Funded Special Revenue Funds
Revenues				
5700	Local and intermediate sources	\$ -	\$ -	\$ -
5800	State program revenues	-	-	-
5900	Federal program revenues	230,377	1,991,214	710,578
5020	Total revenues	230,377	1,991,214	710,578
Expenditures				
Current:				
6011	Instruction	-	837,873	673,806
6012	Instructional resources and media services	-	-	-
6013	Curriculum and instructional staff development	-	419,329	2,927
6021	Instructional leadership	10,071	353,922	24,475
6023	School leadership	-	39,236	-
6031	Guidance, counseling, and evaluation services	-	6,342	306
6032	Social work services	-	141,400	7,194
6033	Health services	-	-	-
6035	Food services	-	7,461	-
6036	Extracurricular activities	220,306	171,140	-
6041	General administration	-	-	1,870
6051	Plant maintenance and operations	-	12,276	-
6052	Security and monitoring services	-	2,235	-
6061	Community services	-	-	-
Capital outlay:				
6081	Facilities acquisition, improvements, and maintenance	-	-	-
Intergovernmental:				
6093	Payments to fiscal agent/member districts of shared services arrangements	-	-	-
6030	Total expenditures	230,377	1,991,214	710,578
1100	Excess (deficiency) of revenues over (under) expenditures	-	-	-
Other Financing Sources (Uses)				
7915	Transfers in	-	-	-
	Total other financing sources (uses)	-	-	-
1200	Net change in fund balances	-	-	-
100	Fund balances, beginning	-	-	-
3000	Fund balances, ending	\$ -	\$ -	\$ -

315	316	340	397	410	429
Shared Services Arrangements - IDEA, Part B, Discretionary	Shared Services Arrangements - IDEA, Part B, Deaf	Shared Services Arrangements - IDEA, Part C, Deaf	Advanced Placement Incentives	State Textbook Fund	Other State Funded Special Revenue Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 107,751
-	-	-	-	1,042,589	852,668
40,207	215	220	-	-	-
40,207	215	220	-	1,042,589	960,419
40,207	215	220	-	1,042,589	785,075
-	-	-	-	-	-
-	-	-	-	-	56,719
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	4,500
-	-	-	-	-	114,125
-	-	-	-	-	-
-	-	-	-	-	-
40,207	215	220	-	1,042,589	960,419
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

Waco Independent School District
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended August 31, 2017

Data Control Codes		435	459	461
		Shared Services Arrangements - Regional Day School for the Deaf	Shared Services Arrangements - Other State and Locally Funded Programs	Campus Activity Funds
Revenues				
5700	Local and intermediate sources	\$ -	\$ 1,417,258	\$ 884,787
5800	State program revenues	217,555	84,778	-
5900	Federal program revenues	-	-	-
5020	Total revenues	<u>217,555</u>	<u>1,502,036</u>	<u>884,787</u>
Expenditures				
Current:				
6011	Instruction	217,555	1,133,226	320,976
6012	Instructional resources and media services	-	-	49,088
6013	Curriculum and instructional staff development	-	536	583
6021	Instructional leadership	-	41,407	-
6023	School leadership	-	169,841	5,046
6031	Guidance, counseling, and evaluation services	-	62,727	-
6032	Social work services	-	-	-
6033	Health services	-	-	-
6035	Food services	-	-	-
6036	Extracurricular activities	-	-	415,210
6041	General administration	-	-	-
6051	Plant maintenance and operations	-	2,493	-
6052	Security and monitoring services	-	-	587
6061	Community services	-	-	1,391
Capital outlay:				
6081	Facilities acquisition, improvements, and maintenance	-	-	-
Intergovernmental:				
6093	Payments to fiscal agent/member districts of shared services arrangements	-	91,806	-
6030	Total expenditures	<u>217,555</u>	<u>1,502,036</u>	<u>792,881</u>
1100	Excess (deficiency) of revenues over (under) expenditures	-	-	91,906
Other Financing Sources (Uses)				
7915	Transfers in	-	-	-
	Total other financing sources (uses)	-	-	-
1200	Net change in fund balances	-	-	91,906
100	Fund balances, beginning	-	-	456,582
3000	Fund balances, ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 548,488</u>

499		699	
Other Locally Funded Special Revenue Funds	Total Nonmajor Special Revenue Funds	Capital Projects Funds	Total Nonmajor Governmental Funds
\$ 1,908,030	\$ 4,317,826	\$ 623	\$ 4,318,449
73,950	2,302,471	-	2,302,471
-	14,913,176	-	14,913,176
<u>1,981,980</u>	<u>21,533,473</u>	<u>623</u>	<u>21,534,096</u>
1,407,040	11,967,555	-	11,967,555
7,691	56,779	-	56,779
159,032	4,077,863	-	4,077,863
251,248	1,322,094	-	1,322,094
409	302,175	-	302,175
307,672	1,739,547	-	1,739,547
-	149,393	-	149,393
-	13,692	-	13,692
-	526,742	-	526,742
16,241	822,897	-	822,897
-	1,870	-	1,870
167,383	182,152	375,352	557,504
-	7,552	-	7,552
9,377	523,563	-	523,563
-	-	23,082	23,082
-	91,806	-	91,806
<u>2,326,093</u>	<u>21,785,680</u>	<u>398,434</u>	<u>22,184,114</u>
<u>(344,113)</u>	<u>(252,207)</u>	<u>(397,811)</u>	<u>(650,018)</u>
<u>344,113</u>	<u>344,113</u>	<u>-</u>	<u>344,113</u>
<u>344,113</u>	<u>344,113</u>	<u>-</u>	<u>344,113</u>
-	91,906	(397,811)	(305,905)
-	456,582	1,243,250	1,699,832
<u>\$ -</u>	<u>\$ 548,488</u>	<u>\$ 845,439</u>	<u>\$ 1,393,927</u>

Agency Fund

Agency Funds are established to account for assets received and held by the District in the capacity of trustee, agent, or custodian. Expenditures are made only in accordance with the purpose for which assets are received. These funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Student Activity Fund (Fund 865)

This fund is used to account for the receipt and disbursement of monies from student activity organizations.

Waco Independent School District
Statement of Changes in Assets and Liabilities
Agency Fund
For the Year Ended August 31, 2017

Exhibit H-3

	Beginning Balance 8/31/16	Additions	Deductions	Ending Balance 8/31/17
Student Activity Fund				
Assets				
Due from other funds	<u>\$ 33,460</u>	<u>\$ 197,580</u>	<u>\$ 167,231</u>	<u>\$ 63,809</u>
Liabilities				
Accounts payable	120	68,398	68,426	92
Due to student groups	<u>33,340</u>	<u>114,998</u>	<u>84,621</u>	<u>63,717</u>
Total liabilities	<u>\$ 33,460</u>	<u>\$ 183,396</u>	<u>\$ 153,047</u>	<u>\$ 63,809</u>

Texas Education Agency Required Schedules

Waco Independent School District
Schedule of Delinquent Taxes Receivable
For the Year Ended August 31, 2017

Last Ten Years Ended August 31,	1	2	3
	Tax Rates		Assessed
	Maintenance & Operations	Debt Service	Appraised Value For School Tax Purposes
2008 and prior years	Various	Various	Various
2009	\$ 1.04005	\$ 0.31910	\$ 3,725,943,682
2010	1.04005	0.32630	3,871,126,355
2011	1.04000	0.32475	3,833,148,214
2012	1.04000	0.32100	3,939,084,113
2013	1.04000	0.31518	4,040,822,252
2014	1.04000	0.31480	4,096,674,417
2015	1.04000	0.31324	4,212,595,871
2016	1.17000	0.23000	4,600,827,921
2017 (school year under audit)	1.17000	0.23000	5,053,462,320
100 Totals			
9000 Taxes paid into Tax Increment Financing Zone under Chapter 311, Tax Code, included in above totals			

10	20	31	32	40	50
Balance September 1, 2016	Current Year's Total Levy	Total Collections		Entire Year's Adjustments	Balance August 31, 2017
		Maintenance & Operations	Debt Service		
\$ 592,365	\$ -	\$ 22,388	\$ 2,076	\$ (173,192)	\$ 394,709
163,575	-	3,859	1,184	(12,224)	146,308
184,109	-	5,007	1,571	(12,553)	164,978
174,919	-	6,721	2,099	(11,359)	154,740
196,217	-	12,294	3,794	(11,206)	168,923
226,872	-	24,989	7,573	(17,591)	176,719
267,366	-	44,566	13,490	(13,558)	195,752
416,273	-	112,792	33,972	(28,598)	240,911
898,334	-	191,278	37,602	(326,412)	343,042
-	70,748,472	57,839,540	11,370,147	(627,201)	911,584
<u>\$ 3,120,030</u>	<u>\$ 70,748,472</u>	<u>\$ 58,263,434</u>	<u>\$ 11,473,508</u>	<u>\$ (1,233,894)</u>	<u>\$ 2,897,666</u>
		<u>\$ 4,208,886</u>	<u>\$ 827,859</u>		

Waco Independent School District

Exhibit J-2

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
Debt Service Fund
For the Year Ended August 31, 2017

Data Control Codes		Budgeted Amounts		Actual Amounts (GAAP Basis)	Variances With Final Budget
		Original	Final		
Revenues					
5700	Local and intermediate sources	\$ 11,638,160	\$ 11,638,160	\$ 11,671,306	\$ 33,146
5800	State program revenues	1,103,088	1,103,088	1,518,667	415,579
5020	Total revenues	12,741,248	12,741,248	13,189,973	448,725
Expenditures					
Debt service:					
6071	Principal on long-term debt	6,405,000	6,405,000	6,405,000	-
6072	Interest on long-term debt	7,142,382	7,142,382	7,142,381	1
6073	Bond issuance cost and fees	25,000	25,000	6,700	18,300
Intergovernmental:					
6097	Payments to tax increment fund	974,414	974,414	827,860	146,554
6030	Total expenditures	14,546,796	14,546,796	14,381,941	164,855
1100	Excess (deficiency) of revenues over (under) expenditures	(1,805,548)	(1,805,548)	(1,191,968)	613,580
Other Financing Sources (Uses)					
7915	Transfers in	-	-	1,199,429	1,199,429
7080	Total other financing sources	-	-	1,199,429	1,199,429
1200	Net change in fund balance	(1,805,548)	(1,805,548)	7,461	1,813,009
0100	Fund balance, beginning	4,627,553	4,646,144	4,646,144	-
3000	Fund balance, ending	\$ 2,822,005	\$ 2,840,596	\$ 4,653,605	\$ 1,813,009

Compliance, Internal Control and Federal Awards



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

The Board of Trustees of
Waco Independent School District
501 Franklin Avenue
Waco, Texas 76712

We have audited, 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Waco Independent School District (the District) as of and for the year ended August 31, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 24, 2018.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Conroe, Texas
January 24, 2018



**Independent Auditor's Report on Compliance for Each Major Federal
Program and Report on Internal Control over Compliance
in Accordance with the Uniform Guidance**

The Board of Trustees of
Waco Independent School District
501 Franklin Avenue
Waco, Texas 76712

Report on Compliance for Each Major Federal Program

We have audited Waco Independent School District's (the District) compliance with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) 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, 2017. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2017.

Report on Internal Control over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the 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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Conroe, Texas
January 24, 2018

Waco Independent School District
Schedule of Findings and Questioned Costs
For the Year Ended August 31, 2017

Section 1. – Summary Of Auditor’s Results

Financial Statements

- | | |
|--|---------------|
| 1. Type of auditor’s report issued | Unmodified |
| 2. Internal Control over Financial Reporting: | |
| a. Material Weakness(es) identified? | No |
| b. Significant Deficiency(ies) identified that are not considered to be material weaknesses? | None reported |
| 3. Noncompliance material to the Financial Statements noted? | No |

Federal Awards

- | | |
|---|--|
| 4. Internal control over major programs: | |
| a. Material Weakness(es) identified? | No |
| b. Significant Deficiency(ies) identified that are not considered to be material weaknesses? | None reported |
| 5. Type of auditor’s report issued on compliance with major programs? | Unmodified |
| 6. Any Audit Findings Disclosed that are Required to be Reported in Accordance with Uniform Guidance? | No |
| 7. Identification of Major Programs | Child Nutrition Cluster – 10.553, 10.555, 10.559 |
| 8. Dollar Threshold Used to Distinguish Between Type A and Type B Federal Programs | \$752,067 |
| 9. Auditee Qualified as a Low-Risk Auditee? | Yes |

Section 2. – Financial Statement Findings

None reported

Section 3 – Federal Award Findings And Questioned Costs

None reported

Waco Independent School District
Summary Schedule of Prior Audit Findings
For the Year Ended August 31, 2017

Prior Year Findings

None reported

Waco Independent School District
Schedule of Expenditures of Federal Awards
For the Year Ended August 31, 2017

Exhibit K-1

(1) Federal Grantor/ Pass Through Grantor/ Program or Cluster Title	(2) Federal CFDA Number	(3) Pass-Through Entity Identifying Number	(4) Total Federal Expenditures
<u>U.S. Department of Education</u>			
Direct Programs:			
ESEA Title V, Part C-Magnet Schools Assistance	84.165A	U165A130077-15	\$ 175,914
ESEA Title V, Part C-Magnet Schools Assistance	84.165A	U165A130077-16	578,467
Total Program 84.165A			<u>754,381</u>
ESEA Title V, Part D - School Improvement	84.215E	S215E130477-15	(30)
ESEA Title V, Part D - School Improvement	84.215E	S215E130477-16	(39)
Total Program 84.215E			<u>(69)</u>
Total Direct Programs			<u>754,312</u>
Passed Through State Department of Education:			
ESEA Title I, Part A - Improving Basic Programs	84.010A	15610101161914	(1,564)
ESEA Title I, Part A - Improving Basic Programs	84.010A	16610101161914	192,140
ESEA Title I, Part A - Improving Basic Programs	84.010A	17610101161914	5,856,396
ESEA Title I, Part A - Improving Basic Programs	84.010A	18610101161914	437,267
Title I 1003(A) Priority & Focus School Grant	84.010A	16610112161914000	38,656
Title I 1003(A) Priority & Focus School Grant	84.010A	17610112161914000	799,001
Total Program 84.010A			<u>7,321,896</u>
Special Education Cluster (IDEA):			
IDEA - Part B Formula	84.027A	166600011619146600	26,212
IDEA - Part B Formula	84.027A	176600011619146600	2,685,578
IDEA - Part B Formula	84.027A	186600011619146600	218,251
IDEA - Part B Preschool	84.173A	166610011619146610	(8)
IDEA - Part B Preschool	84.173A	176610011619146610	25,740
SSA-IDEA-Part B-Discretionary (Deaf)	84.027A	176600111619146673	34,572
SSA-IDEA-Part B-Discretionary (Deaf)	84.027A	186600111619146673	327
SSA-IDEA-Part B-Discretionary (Deaf)	84.027A	176600111619146674	6,513
SSA-IDEA-Part B-Formula Deaf	84.027A	166600011619146601	223
Total Special Education Cluster (IDEA)			<u>2,997,408</u>
SSA-IDEA-Part C-Early Childhood Intervention	84.181A	173911011619143000	220
Career and Technical - Basic Grant	84.048A	16420006161914	(10)
Career and Technical - Basic Grant	84.048A	17420006161914	250,708
Career and Technical - Basic Grant	84.048A	18420006161914	47,499
Total Program 84.048A			<u>298,197</u>
Title IV, Part B-21st Century Community Learning Centers	84.287C	176950247110030	222,897
Title IV, Part B-21st Century Community Learning Centers	84.287C	186950247110030	15,714
Total Program 84.287C			<u>238,611</u>
Title III, Part A - English Language Acquisition and Language Enhancement	84.365A	16671001161914	4,780
Title III, Part A - English Language Acquisition and Language Enhancement	84.365A	17671001161914	203,124
Title III, Part A - English Language Acquisition and Language Enhancement	84.365A	18671001161914	8,905
Title III, Part A - English Language Acquisition and Language Enhancement	84.365A	17671003161914	21,704
Total Program 84.365A			<u>238,513</u>
ESEA Title II, Part A - Teacher and Principal Training and Recruiting	84.367A	16694501161914	43,122
ESEA Title II, Part A - Teacher and Principal Training and Recruiting	84.367A	17694501161914	862,842
ESEA Title II, Part A - Teacher and Principal Training and Recruiting	84.367A	18694501161914	2,511
Total Program 84.367A			<u>908,475</u>

Waco Independent School District
Schedule of Expenditures of Federal Awards
For the Year Ended August 31, 2017

Exhibit K-1

(1) Federal Grantor/ Pass Through Grantor/ Program or Cluster Title	(2) Federal CFDA Number	(3) Pass-Through Entity Identifying Number	(4) Total Federal Expenditures
Passed Through State Department of Education:			
Summer School LEP	84.369A	69551402	8,298
Texas Title I Priority Schools, Cycle 3	84.377A	146107107110018	977,747
Texas Title I Priority Schools, Cycle 3	84.377A	146107107110019	937,767
Texas Title I Priority Schools, Cycle 3	84.377A	146107137110014	57,728
Texas Title I Priority Schools, Cycle 3	84.377A	146107137110015	30,012
Texas Title I Priority Schools, Cycle 5	84.377A	146107107110019	59,126
Total Program 84.377A			2,062,380
Passed through Education Service Center Region 10:			
ESEA Title X, Part C McKinney-Vento Homeless Education	84.196A	16-036	(33)
ESEA Title X, Part C McKinney-Vento Homeless Education	84.196A	17-014	73,442
Total Program 84.196A			73,409
Total Passed through the State Department of Education			14,147,407
Total U.S. Department of Education			14,901,719
<u>U.S. Department of Agriculture</u>			
Child Nutrition Cluster:			
Passed Through State Department of Education - Cash Assistance:			
School Breakfast Program	10.553	71401501	2,362,833
National School Lunch Program	10.555	71301501	6,447,739
Total Passed Through the State Department of Education			8,810,572
Passed Through State Department of Agriculture - Non Cash Assistance:			
National School Lunch Program	10.555	00789	717,083
Passed Through State Department of Agriculture - Cash Assistance:			
Summer Feeding Program	10.559	00789	519,281
Total Passed through the State Department of Agriculture			1,236,364
Total Child Nutrition Cluster			10,046,936
Total U.S. Department of Agriculture			10,046,936
<u>U.S. Department of Labor</u>			
Passed Through Texas Workforce Commission			
WIA Dislocated Worker Formula Grants	17.278	1316ATP000	16,622
Total U.S. Department of Labor			16,622
<u>U.S. Department of Defense</u>			
Direct Program:			
Reserve Officers' Training Corps	12.000	N/A	102,459
Total Direct Program			102,459
Passed Through McLennan County:			
Payments in Lieu of Real Estate Taxes	12.112	N/A	1,152
Total Passed Through McLennan County			1,152
Total U.S. Department of Defense			103,611
Total Expenditures of Federal Awards			\$ 25,068,888

N/A – An entity identifying number is not available.

Waco Independent School District
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended August 31, 2017

Note 19. Basis of Accounting

Special revenue funds are used to account for resources restricted to, or designated for, specific purposes by a grantor. Federal and state financial assistance generally is accounted for in a special revenue fund. Generally, unused balances are returned to the grantor at the close of the specified grant/project period.

The accompanying schedule of expenditures of federal awards presents the activity of all federal award programs of Waco Independent School District (the "District"). The District receives federal awards both directly and indirectly through pass-through entities. The information in this schedule is presented in accordance with the requirements of Single Audit Act Amendments of 1996 and *Title 2 U.S. Code of Federal Regulations (CFR), Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. National School Breakfast and Lunch Program non-cash commodities are recorded at their estimated market value at the time of donation. The District has elected not to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance. All federal grant funds were accounted for in the special revenue funds except for indirect costs recoveries, Medicaid, Student Health and Related Services Program, E-rate, and Junior ROTC reimbursements, and Payments in Lieu of Taxes which are recorded in the general fund. Although recorded as federal revenue in the general fund, certain reimbursements, identified below, do not meet the definition of federal awards for purposes of preparing the schedule of federal awards.

Reconciliation of federal revenues on Exhibit C-2 to the Schedule of Expenditures of Federal Awards

Federal awards per Schedule of Expenditures of Federal Awards	\$ 25,068,888
Medicaid Administrative Claiming Program (MAC)	165,765
Medicaid	17,459
Student Health and Related Services Program (SHARS)	2,553,289
Universal E-rate	<u>1,120,988</u>
Total federal program revenues - Exhibit C-2	<u><u>\$ 28,926,389</u></u>

Sub-recipients

None of the federal expenditures presented in the schedule of expenditures of federal awards were provided to sub-recipients.

**Waco Independent School District
Schools FIRST Questionnaire (Unaudited)
For the Year Ended August 31, 2017**

SF2	Were there any disclosures in the Annual Financial Report and / or other sources of information concerning nonpayment of any terms of any debt agreement at fiscal year end?	No
SF4	Was there an unmodified opinion in the Annual Financial Report on the financial statements as a whole?	Yes
SF5	Did the Annual Financial Report disclose any instances of material weaknesses in internal controls over financial reporting and compliance for local, state, or federal funds?	No
SF6	Was there any disclosure in the Annual Financial Report of material noncompliance for grants, contracts, and laws related to local, state, or federal funds?	No
SF7	Did the school district make timely payments to the Teachers Retirement System (TRS), Texas Workforce Commission (TWC), Internal Revenue Service (IRS), and other government agencies?	Yes
SF8	Did the school district not receive an adjusted repayment schedule for more than one fiscal year for an over allocation of Foundation School Program (FSP) funds as a result of a financial hardship?	Yes
SF10	Total accumulated accretion on capital appreciation bonds included in government-wide financial statements at fiscal year end.	\$ 2,725,463
SF11	Net pension assets (1920) at fiscal year-end	\$ -
SF12	Net pension liabilities (2540) at fiscal year-end	\$ 37,143,113
SF13	Pension expense (6147) at fiscal year-end, excluding on-behalf pension expense (6144)	N/A