

Waco Independent School District

Annual Financial Report

For the Year Ended August 31, 2016

Prepared By

**The Waco Independent School District
Business and Financial Services Department**

501 Franklin Avenue, Waco, Texas 76701

Waco Independent School District
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Introductory Section

Certificate of Board

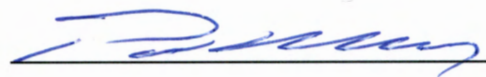
Waco Independent School District

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, 2016 at a meeting of the Board of Trustees of such independent school district on the 26th day of January, 2017.


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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the 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, 2016, 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 Schools FIRST Questionnaire, 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 Board of Trustees of
Waco Independent School District

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 26, 2017 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Waco Independent School District's internal control over financial reporting and compliance.

Yours truly,

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Conroe, Texas

January 26, 2017

Management's Discussion and Analysis

Waco Independent School District
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended August 31, 2016

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, 2016. 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, 2016:

- ♦ On a government-wide basis, the assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$60,359,421. Of this amount, \$30,355,750 is unrestricted and may be used to meet ongoing obligations.
- ♦ Total net position for governmental activities decreased by \$99,426 from the net position of the prior year.
- ♦ The governmental funds reported combined ending fund balances of \$53,991,670, an increase of \$2,301,459 compared with the prior year. Of the combined fund balances, \$39,036,156 or 72.3 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 \$45,917,241 of which \$39,036,156 was unassigned. The unassigned amount represents 29.9 percent of its annual operating expenditures. The total fund balance increased by \$2,933,829 over the prior year with the unassigned fund balance increasing by \$2,288,698, 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 \$1,728,453, an increase of \$165,701 over the prior year.
- ♦ Fund balances restricted for debt service increased by \$18,591 to \$4,646,144. The General Fund transferred \$1,873,014 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, 2016

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, 2016

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 uses 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. Additionally, management establishes other funds 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.

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

Waco Independent School District
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended August 31, 2016

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, 2016

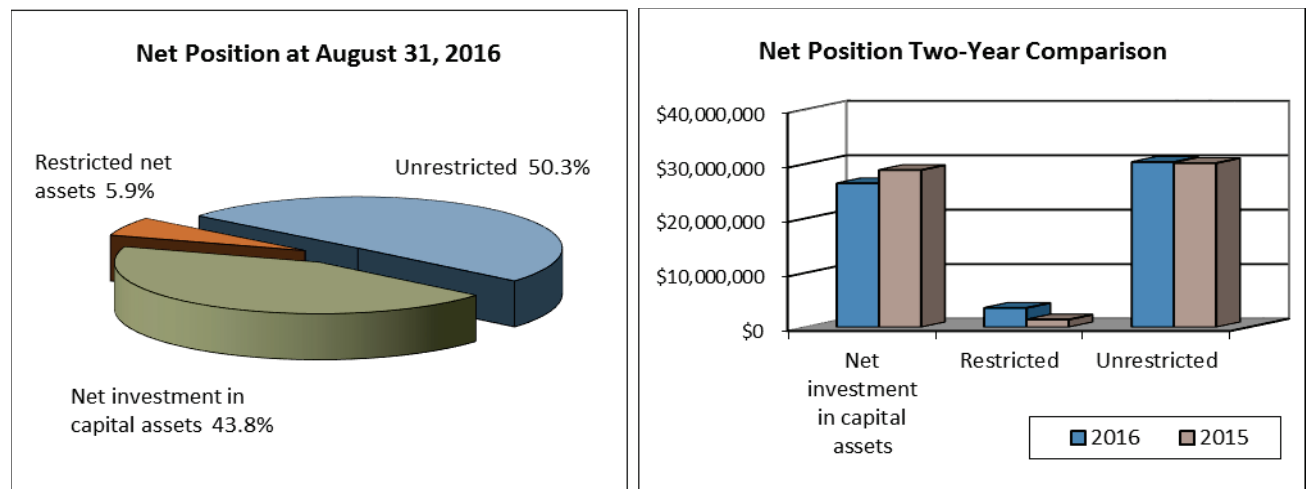
Government-wide Financial Analysis

The District's overall financial position and operations for the fiscal years ended August 31, 2016 and 2015 are summarized as follows, based on the information included in the government-wide financial statements.

	Governmental Activities		
	2016	2015	% Change
Current and other assets	\$ 62,786,648	\$ 66,486,776	-5.6%
Capital assets, net of accumulated depreciation	198,673,652	205,205,337	-3.2%
Long-term investments	3,458,000	-	
Total assets	264,918,300	271,692,113	-2.5%
Deferred outflows of resources	39,511,129	14,820,267	166.6%
Current liabilities	17,003,480	18,657,162	-8.9%
Long-term liabilities	221,156,635	203,055,405	8.9%
Total liabilities	238,160,115	221,712,567	7.4%
Deferred inflows of resources	5,909,893	4,340,966	
Net position:			
Net investment in capital assets	26,434,432	28,878,748	-8.5%
Restricted	3,569,239	1,419,771	151.4%
Unrestricted	30,355,750	30,160,328	0.7%
Total net position	\$ 60,359,421	\$ 60,458,847	-0.2%

The District's total assets and deferred outflows of resources exceeded its total liabilities and deferred inflows of resources by \$60,359,421 as of August 31, 2016, a decrease of \$99,426 from August 31, 2015.

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 decreased \$2,444,316 from the prior year due to the depreciation of capital assets.



Approximately 5.9 percent of the net position represents resources subject to external restrictions on how they are used. \$1,728,453 of the funds are restricted for federal programs, specifically the National School Breakfast and Lunch program, with another \$1,840,786 legally reserved under bond covenants.

Waco Independent School District
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended August 31, 2016

The balance of unrestricted net position, \$30,355,750, 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, 50.3 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.

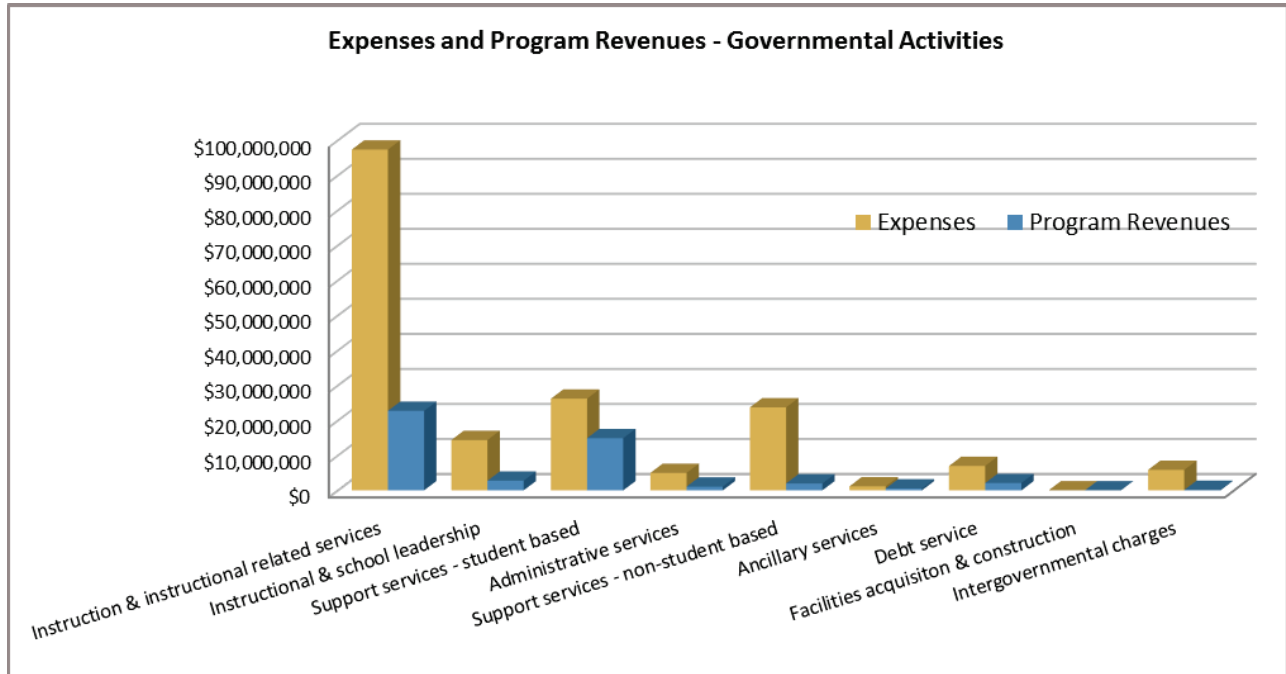
Changes in Net Position

The following table provides a summary comparing the District's operations for the years ended August 31, 2016 and 2015. For the year ended August 31, 2016, governmental activities decreased net position by \$99,426.

	Governmental Activities		
	2016	2015	% Change
Revenues:			
Program Revenues:			
Charges for services	\$ 4,666,579	\$ 4,126,548	13.09%
Operating grants and contributions	41,546,587	40,689,915	2.11%
General Revenues:			
Property taxes	62,773,910	58,804,426	6.75%
Grants and contributions not restricted	70,471,901	65,525,694	7.55%
Investment earnings	244,394	88,831	175.12%
Miscellaneous	708,154	818,949	-13.53%
Total revenues	<u>180,411,525</u>	<u>170,054,363</u>	6.09%
Expenses:			
Instruction	88,611,062	77,681,640	14.07%
Instructional resources and media services	1,196,338	1,124,801	6.36%
Curriculum and instructional staff development	7,509,106	6,947,353	8.09%
Instructional leadership	4,392,247	3,677,116	19.45%
School leadership	9,978,219	9,115,358	9.47%
Guidance, counseling, and evaluation services	5,144,364	4,648,929	10.66%
Social work services	1,417,893	1,031,823	37.42%
Health services	1,216,958	1,102,805	10.35%
Student transportation services	2,860,485	2,693,602	6.20%
Food services	10,492,347	10,019,785	4.72%
Extracurricular activities	5,051,637	4,653,098	8.57%
General administration	4,984,938	4,179,447	19.27%
Plant maintenance and operations	18,452,585	17,352,111	6.34%
Security and monitoring services	2,222,486	2,070,750	7.33%
Data processing services	3,045,119	3,411,040	-10.73%
Community services	1,152,542	1,215,064	-5.15%
Debt service - Interest on long-term debt	6,474,116	7,503,739	-13.72%
Debt service - Issuance costs and fees	514,954	1,075,983	-52.14%
Facilities acquisition, improvements, and maintenance	-	160,135	-100.00%
Payments to fiscal agents/member districts of shared services arrangements	520,899	409,664	27.15%
Payments related to Juvenile Justice Alternative Education program	410,518	360,740	13.80%
Payments to tax increment reinvestment zones	4,214,674	3,534,625	19.24%
Other intergovernmental charges	701,349	727,905	-3.65%
Total expenses	<u>180,564,836</u>	<u>164,697,513</u>	9.63%
Increase in net position before transfers, and special items	(153,311)	5,356,850	-102.86%
Transfers	-	15,000	
Gain (loss) on sale of capital assets	53,885	(1,054,382)	-105.11%
Change in net position	(99,426)	4,317,468	-102.30%
Net position, September 1	<u>60,458,847</u>	<u>56,141,379</u>	7.69%
Net position, August 31	<u>\$ 60,359,421</u>	<u>\$ 60,458,847</u>	-0.16%

Waco Independent School District
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended August 31, 2016

The cost of all governmental activities totaled \$180,564,836, increasing \$15,837,323 from the prior year. Although program revenues of \$4,666,579, in the form of charges for services, and \$41,546,587, in grants and contributions, increased a total of \$1,396,703, 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 formula funding through the State's Foundation School program grants and contributions not restricted. State formula grants contributed \$70,471,901, 39.1 percent, of the \$180,411,525 total revenue. Funding from State formula grants increased \$4,946,207 from the prior year. Three major factors impact State funding: property valuations and collections, representing local effort, and average daily attendance. Property values increased 4.3 percent for the 2015 tax year and the average daily attendance for the 2015-16 school year increased by 44.5 students from 2014-15.

Local property tax revenue contributed \$62,773,910 or 34.8 percent of the total revenue. Property taxes for general purposes increased \$7,229,214 while property taxes levied for debt service decreased \$3,259,730. In November 2016 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", the District transferred \$1,873,014 from the General Fund to the Debt Service Fund to assist in the payment of long-term debt principal and interest. The remaining \$5,356,200 was utilized to enhance literacy, dual credit, behavior management, and mental health programs.

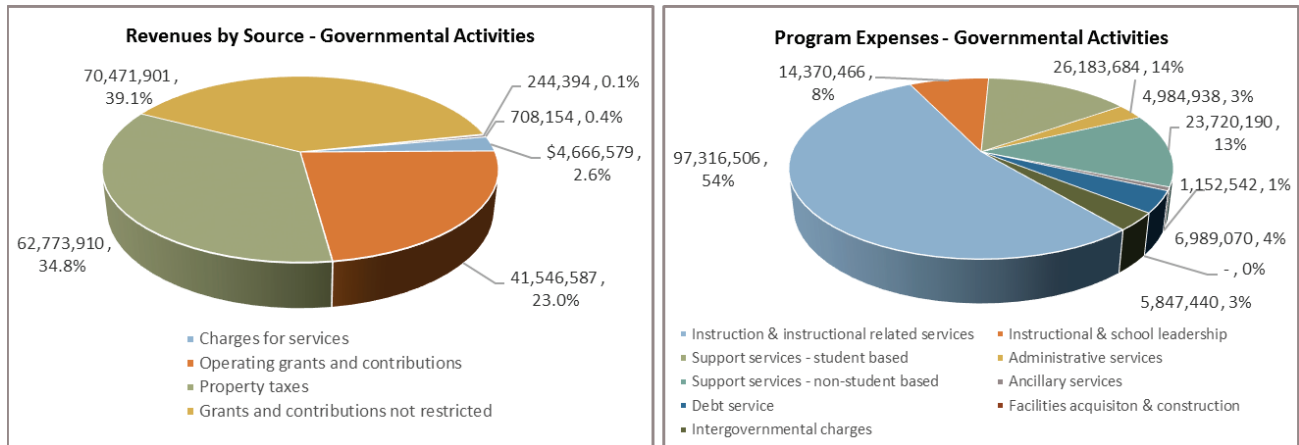
Revenue from operating grants and contributions contributed \$41,546,587 or 23.0 percent of total revenue. These revenues increased \$856,672 from 2014-15 and reflect the impact competitively awarded grants for school improvement awarded through the TEA for J.H. Hines Elementary School and Indian Spring Middle School as well as the continuation of two grants awarded directly through the U.S. Department of Education for Magnet Schools Assistance and School Improvement (guidance and counseling) grants. The latter two grants will end on September 30, 2016.

Waco Independent School District
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended August 31, 2016

Revenues identified as charges for services increased by \$540,031 from 2014-15. 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 \$15,847,440 from the prior year. Expenditures for direct classroom instruction increased \$10,929,422 or 14.1 percent. This makes up 68.8 percent of the total increase in expenditures. Not only were most of the funds generated by the tax ratification election directed to the classroom, the Board of Trustees increased the starting teacher salary to \$45,000 and awarded an average pay increase of 3.4 percent for employees paid on the teacher schedule with all other employee groups receiving an average increase of 2.0 percent of the midpoint. Additionally, the Board approved equity adjustments to employees paid on the auxiliary pay schedule totaling \$345,868.

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, 2016, the District's governmental funds reported combined ending fund balances of \$53,991,670, an increase of \$2,301,459 from the prior year. 72.3 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, 2016

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	\$ 196,803
Restricted fund balance:	
Federal or state funds grant restriction	1,728,453
Capital acquisition and contractual obligation	1,243,250
Retirement of long-term debt	4,646,144
Committed fund balance:	
Construction and other major improvements	4,661,867
Capital expenditures for equipment	725,108
Other committed fund balance	518,339
Assigned fund balance:	
Capital expenditures for equipment	810,768
Other assigned fund balance	424,782

The *general fund* is the primary operating fund and supports most of the District's educational program support operations. As of August 31, 2016, the fund balance for the general fund totaled \$45,917,241, increasing \$2,933,829 over the year ended August 31, 2015. The unassigned portion of the fund balance increased by \$2,288,698 to \$39,036,156, while committed and assigned funds increased by \$687,457. The increase in committed and assigned funds is attributable to uncompleted construction and other major improvements projects at August 31, re-appropriated in the subsequent fiscal year. Nonspendable fund balance in inventories totaled \$196,803.

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 29.9 percent of total fund expenditures, while the total fund balance is 35.2 percent.

Revenues for the National School Breakfast and Lunch Program exceeded expenditures by \$160,890. However, the General Fund recognized \$529,949 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. The fund balance at year end totaled \$1,728,452.

Reserves in the debt service fund increased by \$18,591. Although property values increased 4.29 percent, the reduction in the interest and sinking fund tax rate of \$0.08324 per \$100 of valuation resulted in a decrease in local revenues of \$3,204,749. At the same time, debt service payments for principal and interest on long-term debt, as well as costs associated with the refunding of portions of the 2006 and 2009 series of bonds, decreased \$1,371,393. The shortfall was made up through an operating transfer from the General Fund of \$1,873,014. The ending debt service reserve represents 34.3 percent of the annual debt service.

The capital projects funds are consolidated on the governmental fund financials. Capital projects funds are used to account for financial resources to be used for the construction and renovation of District facilities. The District expended \$783,284 for renovations during the fiscal year. The fund balance of the District's capital projects fund at year-end total \$1,243,250. This balance represents funds remaining from general obligation bonds issued in 2008 and 2009.

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, \$456,582, for the other governmental funds represents the balance committed for campus activity funds.

Waco Independent School District
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended August 31, 2016

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 \$430,599. Fees paid to the third party administrator totaled \$91,315. Workers' compensation claims invoiced totaled \$200,989 a decrease of \$328,785 from the prior year. However, the District's estimated allocated loss adjustment expense of \$311,089, which was accrued at August 31, 2016, decreased by \$181,794. Unemployment claims paid totaled \$101,441, an increase of \$46,518 over the prior year. Due to the change in actuarial estimate for future costs, the ending net position for the fund increased \$218,648 to \$1,011,947 at August 31, 2016.

General Fund Budgetary Highlights

On August 24, 2015, 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	\$ 133,629,115
National School Breakfast and Lunch Program fund	9,778,550
Debt Service fund	14,742,794

In addition to the functional appropriations, the District budgeted an operating transfer of \$157,563 in the General Fund to cover the projected funding deficit for start-up operations of the Advanced Health Care Academy. Estimated revenues covered budgeted appropriations in both the General Fund and National School Breakfast and Lunch Program.

While the General Fund budget was adopted based on a proposed tax rate of \$1.17 per \$100 of valuation, the Debt Service Fund budget was adopted based on a tax rate of \$0.27324. In proposing the 2015 tax rate, the Board decided to reduce the interest and sinking rate to \$0.23 per \$100 of valuation and utilize unassigned fund balance from the General Fund to assist in meeting debt obligations for the 2015-16 fiscal year. The proposed tax rate of \$1.40 per \$100 of valuation would automatically trigger a tax ratification election. The Board ordered a special election to be held for voting on an ad valorem tax rate. On November 3, 2015, the voters ratified the tax rate by a margin of 1922, For, and 1350, Against, with 58.7 percent of the voting taxpayers in favor of the increase. The impact of the tax rate increase was mitigated for the local home owner as the homestead exemption increased from \$15,000 to \$25,000.

Also, the 84th Legislative session had resulted in changes to the State's Foundation School Program. Changes in the funding formula were estimated to generate \$4.0 million in additional general fund revenue while the increase in the tax rate would generate another \$3.0 million in State revenue and \$5.2 million in local property tax revenue for total estimated new revenues of \$12.2 million. Approximately \$2.1 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 elementary classroom support through additional instructional aides;
- Supplement middle school reading programs;
- Accelerate instruction for over-age middle school students'
- Enhance credit opportunities at secondary through an eight-period day and dual credit programs;
- Reinforce behavior management and discipline through research-based programs;
- Implement school-based health/mental health initiatives; 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, 2016

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. Furthermore, the Board will approve 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:
 - \$31,766 increasing transportation revenue to support bus routes for the Advanced Academies;
 - \$43,080 increasing local revenue to fund literacy initiatives;
 - \$330,207 increasing federal E-Rate revenue to fund technology infrastructure projects;
 - \$92,800 increasing investment income and \$61,200 increasing pass-through revenues to support additional expenditures for the tax increment fund, and
 - \$45,000 in bus sales to support bus replacements.
- Additionally, unassigned fund balance was used to support expenditure appropriations for the following:
 - \$50,000 additional start-up costs for the Greater Waco Advanced Health Care Academy;
 - \$723,374 for purchase orders not received at August 31, 2015, and re-appropriated in 2015-16;
 - \$5,198,237 for renovations and major repair projects not completed at August 31, 2015, and re-appropriated in 2015-16;
 - \$3,059,846 for new renovations and major repairs projects, including remodeling a closed campus to house the expanded credit recovery program;
 - \$290,000 for new Board initiatives, including funding the work of Transformation Committees for low-performing campuses, curriculum audit, and legal and audit services

In the Debt Service fund, local property tax revenue was amended downward by \$2,100,634, to reflect the lower proposed tax rate, and offset by an operating transfer from the General fund. Other sources and uses, and expenditure appropriations for bond issuance costs were amended in the debt service fund to record the issuance and costs of refunding of \$48,510,000 of portions of the Series 2006 and 2009 general obligation bonds.

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 | \$ 895,930 |
| • The Regional Day School for the Deaf | 671,396 |
| • The Greater Waco Advanced Academies: | |
| ○ Advanced Health Care Academy | 498,194 |
| ○ Advanced Manufacturing Academy | 611,290 |

Waco Independent School District
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended August 31, 2016

Capital Assets

The District's investment in capital assets for its governmental activities as of August 31, 2016, totaled \$198,673,652, net of accumulated depreciation of \$122,679,819. Capital assets, net of accumulated depreciation decreased \$6,531,685 from the August 31, 2015 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 chart shows the changes in capital assets by category of asset.

	Governmental Activities	
	August 31, 2016	August 31, 2015
Land	\$ 9,287,690	\$ 9,287,690
Buildings and improvements	180,686,089	185,464,408
Furniture, equipment, and vehicles	8,654,566	9,607,918
Construction in progress	45,307	845,321
Total capital assets, net of accumulated depreciation	<u>\$ 198,673,652</u>	<u>\$ 205,205,337</u>

Major capital asset acquisitions for the current fiscal year included:

- Completion of major renovations at the Greater Waco Advanced Health Care Academy of \$700,245; and
- \$1,919,856 in capitalized vehicles and equipment.

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, 2016, the District had total long-term liabilities totaling \$227,851,635. Of this amount, \$190,557,149 comprises debt backed by the full faith of the State of Texas Permanent School Fund. During the 2015-16 fiscal year, the District retired \$7,440,001 in bonded debt through scheduled debt service payments. Bond payments due within one year total \$6,695,000. Long-term obligations also include lease revenue bonds in the amount of \$1,270,000, \$311,089 for estimated workers' compensation claims, and \$35,713,397 for the District's proportionate share of the net pension liability.

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

	Governmental Activities	
	August 31, 2016	August 31, 2015
General obligation bonds	\$ 166,200,000	\$ 174,185,000
Maintenance tax notes	-	570,000
Lease revenue bonds	1,270,000	1,545,000
Premiums	21,708,264	12,882,912
Accumulated accretion	2,648,885	5,693,948
Total bonds payable, net	191,827,149	194,876,860
Claims and judgments	311,089	492,883
Net pension liability	35,713,397	14,190,662
Total long-term liabilities	<u>\$ 227,851,635</u>	<u>\$ 209,560,405</u>

Waco Independent School District
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended August 31, 2016

In June 2016, the District issued \$47,120,000 of refunding bonds. The proceeds of the refunding bonds were used to legally defease \$48,510,000 of previously issued District bonds in order to lower its overall debt service requirements. The reacquisition price exceeded the net carrying value of the old debt by \$5,661,529. The District advance-refunded the bonds in order to reduce its future debt service payments by \$8,690,637 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$7,023,583.

The District's bonds are sold 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 \$21,522,735 in the fiscal year ended August 31, 2016, 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, 2016	August 31, 2015
Deferred outflows of pension resources	\$ 23,815,335	\$ 3,989,388
Pension liability	35,713,397	14,190,662
Deferred inflows of pension resources	5,909,893	4,340,966
Pension expense	9,690,356	5,259,768

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 2016-17 fiscal year, the Board of Trustees adopted a General Fund budget with appropriations totaling \$140,030,606, including an operating transfer of \$548,055 to cover the projected shortfall in funding for the Greater Waco Advanced Academies. Estimated revenues of \$136,212,806 fall short of funding these appropriations by \$3,817,800.

State revenues are driven by local property collections and values as well as student populations in average daily attendance. While significant increases in 2016 property values of 10.2 percent provided increased tax revenue for maintenance and operations of \$4,271,093, the increased values had a negative impact on State revenue. Coupled with an estimated drop in average daily attendance of 75 students, State Foundation School program revenue is estimated to decrease \$4,509,892.

In spite of a flat revenue estimate, the Board was committed to maintaining the additional staffing and classroom support funded through the 2015 tax ratification election. Additionally, staffing was increased expand and enhance gifted and talented programs at both middle and elementary schools, expand career and college readiness options, and to reduce staffing ratios to pre-recession levels.

With a national shortage of qualified teachers, the Board continued to strengthen the District's compensation plan, increasing the starting teacher salary to \$45,500 and its monthly contribution to health insurance 16.7 percent from \$300 to \$350 per month. Minimum wage rates for support staff were increased by \$0.50 per hour and a cost of living increase averaging approximately 2.0 percent was given to all employee groups.

Again this year, the Board decided to maintain a tax rate of \$0.23 per \$100 of valuation for the interest and sinking tax rate. With the increase in values, this rate will generate an estimated \$11,638,160 in tax collections. However, the increased property values and decreases in average daily attendance negatively impact State revenues from

Waco Independent School District
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended August 31, 2016

the Existing Debt and Instructional Facilities Allotment. Revenues from these sources are estimated to decrease by \$792,080. Revenues are estimated to be short of covering annual debt service requirements by \$1,805,548.

The District will continue to refine budget estimates and project actual operating results. Early projections for the 2016-17 school year show average daily attendance up 169 students, generating an additional \$956,092 in State revenue for general operations and \$232,106 for debt services.

The District's leadership continues to work closely with local organizations to enhance the community environment and develop strategies to provide educational opportunities efficiently and effectively. Success of children and their families can only have a positive impact on the success of the District. In passing the tax ratification election, the Waco community has demonstrated its support of the District's efforts in dealing with issues of poverty and declines in population. The District is committed to its stewardship 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, 2016

Data Control Codes		Governmental Activities
	Assets	
1110	Cash and cash equivalents	\$ 57,736,996
1220	Property taxes receivable	3,120,030
1230	Allowance for uncollectible taxes	(2,170,910)
1240	Due from other governments	3,564,971
1250	Accrued interest receivable	45,712
1290	Other receivables	83,902
1300	Inventories	405,947
	Capital assets not subject to depreciation:	
1510	Land	9,287,690
	Capital assets, net of accumulated depreciation:	
1520	Buildings and improvements	180,686,089
1530	Furniture, equipment, and vehicles	8,654,566
1580	Construction in progress	45,307
1910	Long-term investments	3,458,000
1000	Total assets	<u>264,918,300</u>
	Deferred Outflows of Resources	
1701	Deferred charge on refunding	15,695,794
1705	Deferred outflow of pension resources	23,815,335
1700	Total deferred outflows of resources	<u>39,511,129</u>
	Liabilities	
2110	Accounts payable	3,543,188
2120	Other liabilities	84,580
2140	Accrued interest payable	327,656
2150	Payroll deductions and withholdings	2,171,313
2160	Accrued wages payable	3,226,160
2177	Due to fiduciary funds	33,739
2180	Due to other governments	351,901
2300	Unearned revenue	569,943
	Noncurrent liabilities:	
2501	Due within one year	6,695,000
2502	Due after one year	185,132,149
2540	Net pension liability (district's share)	35,713,397
2590	Claims and judgments	311,089
2000	Total liabilities	<u>238,160,115</u>
	Deferred Inflows of Resources	
2605	Deferred inflows of pension resources	5,909,893
2600	Total deferred inflows of resources	<u>5,909,893</u>
	Net Position	
3200	Net investment in capital assets	26,434,432
	Restricted for:	
3820	Federal and state programs	1,728,453
3850	Debt service	1,840,786
3900	Unrestricted	30,355,750
3000	Total net position	<u><u>\$ 60,359,421</u></u>

Waco Independent School District
Statement of Activities
For the Year Ended August 31, 2016

Data Control Codes		1	Program Revenues		Net (Expense) Revenue and Changes in Net Position
			3	4	6
			Charges for Services	Operating Grants and Contributions	Governmental Activities
	Primary Government:				
	Governmental activities:				
11	Instruction	\$ 88,611,062	\$ 1,719,516	\$ 16,404,607	\$ (70,486,939)
12	Instructional resource and media services	1,196,338	34,120	78,867	(1,083,351)
13	Curriculum and instructional staff development	7,509,106	-	4,487,803	(3,021,303)
21	Instructional leadership	4,392,247	249,962	1,343,957	(2,798,328)
23	School leadership	9,978,219	170,780	1,000,276	(8,807,163)
31	Guidance, counseling, and evaluation services	5,144,364	122,221	1,752,456	(3,269,687)
32	Social work services	1,417,893	-	827,662	(590,231)
33	Health services	1,216,958	-	405,635	(811,323)
34	Student transportation services	2,860,485	-	266,008	(2,594,477)
35	Food services	10,492,347	688,102	9,468,205	(336,040)
36	Extracurricular activities	5,051,637	992,762	377,542	(3,681,333)
41	General administration	4,984,938	142,308	931,269	(3,911,361)
51	Plant maintenance and operations	18,452,585	366,705	937,765	(17,148,115)
52	Security and monitoring services	2,222,486	-	80,358	(2,142,128)
53	Data processing services	3,045,119	-	596,099	(2,449,020)
61	Community services	1,152,542	110,757	436,428	(605,357)
72	Interest on long-term debt	6,474,116	-	2,101,701	(4,372,415)
73	Issuance cost and fees	514,954	-	-	(514,954)
93	Payments to fiscal agents/member districts of shared services arrangements	520,899	69,346	49,949	(401,604)
95	Payments related to Juvenile Justice Alternative Education Program	410,518	-	-	(410,518)
97	Payments to tax increment zones	4,214,674	-	-	(4,214,674)
99	Other intergovernmental charges	701,349	-	-	(701,349)
TP	Total primary government	<u>\$ 180,564,836</u>	<u>\$ 4,666,579</u>	<u>\$ 41,546,587</u>	<u>(134,351,670)</u>
	Data Control Codes				
	General revenues:				
	Taxes:				
MT	Property taxes, levied for general purposes				52,444,091
DT	Property taxes, levied for debt service				10,329,819
GC	Grants and contributions not restricted				70,471,901
IE	Investment earnings				244,394
MI	Miscellaneous				708,154
SI	Gain on sale of capital assets				53,885
TR	Total general revenues				<u>134,252,244</u>
CN	Change in net position				(99,426)
NB	Net position, beginning				60,458,847
NE	Net position, ending				<u>\$ 60,359,421</u>

Waco Independent School District
Balance Sheet
Governmental Funds
August 31, 2016

Data Control Codes	10 General Fund	24 Natl School Breakfast & Lunch Fund	50 Debt Service Fund	60 Capital Projects Funds	Non-major Governmental Funds	Total Governmental Funds
Assets						
1110 Cash and cash equivalents	\$ 50,528,974	\$ 1,569,987	\$ 2,891,541	\$ 1,414,864	\$ 1,331,630	\$ 57,736,996
1220 Property taxes - delinquent	2,539,640	-	580,390	-	-	3,120,030
1230 Allowance for uncollectible taxes (credit)	(1,761,704)	-	(409,206)	-	-	(2,170,910)
1240 Receivables from other governments	88,017	403,039	30,783	-	3,043,132	3,564,971
1250 Accrued interest receivable	45,712	-	-	-	-	45,712
1260 Due from other funds	3,207,347	-	1,872,264	-	892,269	5,971,880
1290 Other receivables	8,904	-	-	-	74,998	83,902
1300 Inventories	196,803	209,144	-	-	-	405,947
1900 Long-term investments	3,458,000	-	-	-	-	3,458,000
Total assets	<u>\$ 58,311,693</u>	<u>\$ 2,182,170</u>	<u>\$ 4,965,772</u>	<u>\$ 1,414,864</u>	<u>\$ 5,342,029</u>	<u>\$ 72,216,528</u>
Liabilities						
2110 Accounts payable	\$ 2,166,713	\$ 18,650	\$ -	\$ 63,000	\$ 1,276,757	\$ 3,525,120
2120 Short-term debt payable - current	78,580	-	-	6,000	-	84,580
2150 Payroll deductions and withholdings payable	2,171,313	-	-	-	-	2,171,313
2160 Accrued wages payable	2,858,420	31,073	-	-	336,667	3,226,160
2170 Due to other funds	4,139,376	301,110	-	102,614	2,803,622	7,346,722
2180 Due to other governments	202,114	-	148,445	-	1,342	351,901
2300 Unearned revenues	-	102,884	-	-	467,059	569,943
Total liabilities	<u>11,616,516</u>	<u>453,717</u>	<u>148,445</u>	<u>171,614</u>	<u>4,885,447</u>	<u>17,275,739</u>
Deferred Inflows of Resources						
2601 Unavailable revenues - property taxes	777,936	-	171,183	-	-	949,119
2600 Total deferred inflows of resources	<u>777,936</u>	<u>-</u>	<u>171,183</u>	<u>-</u>	<u>-</u>	<u>949,119</u>
Fund Balances						
Nonspendable fund balance:						
3410 Investments in inventory	196,803	-	-	-	-	196,803
Restricted fund balance:						
3450 Federal or state funds grant restriction	-	1,728,453	-	-	-	1,728,453
3470 Capital acquisition and contractual obligation	-	-	-	1,243,250	-	1,243,250
3480 Retirement of long-term debt	-	-	4,646,144	-	-	4,646,144
Committed fund balance:						
3510 Construction and other major improvements	4,661,867	-	-	-	-	4,661,867
3530 Capital expenditures for equipment	725,108	-	-	-	-	725,108
3545 Other committed fund balance	61,757	-	-	-	456,582	518,339
Assigned fund balance:						
3570 Capital expenditures for equipment	810,768	-	-	-	-	810,768
3590 Other assigned fund balance	424,782	-	-	-	-	424,782
3600 Unassigned fund balance	39,036,156	-	-	-	-	39,036,156
3000 Total fund balances	<u>45,917,241</u>	<u>1,728,453</u>	<u>4,646,144</u>	<u>1,243,250</u>	<u>456,582</u>	<u>53,991,670</u>
4000 Total liabilities, deferred inflows, and fund balances	<u>\$ 58,311,693</u>	<u>\$ 2,182,170</u>	<u>\$ 4,965,772</u>	<u>\$ 1,414,864</u>	<u>\$ 5,342,029</u>	<u>\$ 72,216,528</u>

Waco Independent School District
Reconciliation of Fund Balances of Governmental Funds
to Net Position of Governmental Activities
August 31, 2016

Fund balances - total governmental funds (Exhibit C-1) \$ 53,991,670

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	\$ 321,353,470	
Accumulated depreciation of governmental capital assets	<u>(122,679,819)</u>	198,673,651

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.		949,119
--	--	---------

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	\$ (167,470,000)	
Premium on bonds payable	(21,708,264)	
Accreted interest on capital appreciation bonds	(2,648,885)	
Accrued interest on the bonds	(327,656)	
Net pension liability	<u>(35,713,397)</u>	(227,868,202)

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		1,011,947
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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.		15,695,794
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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.		23,815,335
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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>(5,909,893)</u>
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Net position of governmental activities (Exhibit A-1)		<u><u>\$ 60,359,421</u></u>
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Waco Independent School District
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended August 31, 2016

Data Control Codes		10	24	50	60		98
		General Fund	Natl School Breakfast & Lunch Fund	Debt Service Fund	Capital Projects Funds	Non-major Governmental Funds	Total Governmental Funds
Revenues							
5700	Local and intermediate sources	\$ 54,949,829	\$ 688,938	\$ 10,633,521	\$ 1,089	\$ 3,410,867	\$ 69,684,244
5800	State program revenues	75,927,180	54,399	2,101,701	-	2,072,858	80,156,138
5900	Federal program revenues	4,407,584	8,833,968	-	-	15,945,384	29,186,936
5020	Total revenues	135,284,593	9,577,305	12,735,222	1,089	21,429,109	179,027,318
Expenditures							
Current:							
6011	Instruction	69,229,506	-	-	-	11,057,624	80,287,130
6012	Instructional resources and media services	869,044	-	-	-	49,888	918,932
6013	Curriculum and instructional staff development	2,885,955	-	-	-	4,334,461	7,220,416
6021	Instructional leadership	2,685,579	-	-	-	1,448,463	4,134,042
6023	School leadership	9,115,831	-	-	-	338,740	9,454,571
6031	Guidance, counseling, and evaluation services	3,399,426	-	-	-	1,500,641	4,900,067
6032	Social work services	611,290	-	-	-	757,062	1,368,352
6033	Health services	1,122,310	-	-	-	10,158	1,132,468
6034	Student transportation services	2,788,283	-	-	-	-	2,788,283
6035	Food services	-	9,416,415	-	-	579,002	9,995,417
6036	Extracurricular activities	3,753,769	-	-	-	657,720	4,411,489
6041	General administration	4,667,929	-	-	-	25,140	4,693,069
6051	Plant maintenance and operations	17,410,109	-	-	445,842	195,978	18,051,929
6052	Security and monitoring services	2,094,722	-	-	-	1,543	2,096,265
6053	Data processing services	3,083,693	-	-	-	-	3,083,693
6061	Community services	663,672	-	-	-	439,912	1,103,584
Debt service:							
6071	Principal	845,000	-	6,595,001	-	-	7,440,001
6072	Interest	106,077	-	7,366,732	-	-	7,472,809
6073	Bond issuance cost and fees	2,900	-	512,054	-	-	514,954
Capital outlay:							
6081	Facilities acquisition, improvements, and maintenance	42,806	-	-	337,442	-	380,248
Intergovernmental:							
6093	Payments to fiscal agent/member districts of shared services arrangements	398,053	-	-	-	122,846	520,899
6095	Payments related to Juvenile Justice Alternative Education Program	410,518	-	-	-	-	410,518
6097	Payments to tax increment fund	3,590,651	-	624,023	-	-	4,214,674
6099	Other intergovernmental charges	701,349	-	-	-	-	701,349
6030	Total expenditures	130,478,472	9,416,415	15,097,810	783,284	21,519,178	177,295,159
1100	Excess (deficiency) of revenues over (under) expenditures	4,806,121	160,890	(2,362,588)	(782,195)	(90,069)	1,732,159
Other Financing Sources (Uses)							
7901	Refunding bonds issued	-	-	47,120,000	-	-	47,120,000
7912	Sale of real and personal property	56,324	4,811	-	-	-	61,135
7915	Transfers in	-	-	1,873,014	-	55,602	1,928,616
7916	Premium on refunding bonds issued	-	-	11,068,981	-	-	11,068,981
8911	Transfers out	(1,928,616)	-	-	-	-	(1,928,616)
8940	Payment to refunded bond escrow agent	-	-	(57,680,816)	-	-	(57,680,816)
	Total other financing sources (uses)	(1,872,292)	4,811	2,381,179	-	55,602	569,300
1200	Net change in fund balances	2,933,829	165,701	18,591	(782,195)	(34,467)	2,301,459
0100	Fund balances, beginning	42,983,412	1,562,752	4,627,553	2,025,445	491,049	51,690,211
3000	Fund balances, ending	\$ 45,917,241	\$ 1,728,453	\$ 4,646,144	\$ 1,243,250	\$ 456,582	\$ 53,991,670

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

Waco Independent School District
Reconciliation of Statement of Revenues, Expenditures, and Changes in
Fund Balances of Governmental Funds to Statement of Activities
For the Year Ended August 31, 2016

Total net changes in fund balances - Governmental Funds (Exhibit C-2) \$ 2,301,459

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	\$ 2,300,106	
Depreciation expense	(8,824,540)	(6,524,434)

The net effect of miscellaneous transactions involving capital assets (transfers, adjustments, and dispositons) is a decrease to net position.		(7,251)
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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 decrease in deferred tax revenues is a decrease to net position.		(752,663)
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Issuance of bonds provides current financial resources to governmental funds. The issuance of debt increases long-term liabilities in the statement of net position.

Par value of bonds issued	\$ (47,120,000)	
Premium	(11,068,981)	(58,188,981)

Payment to escrow agent, from refunding proceeds, to pay refunded bonds		57,680,816
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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.		7,440,001
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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 interst reported in the statement of activities consist of the following:

Accrued interest on current interest bonds payable decreased	\$ 15,904	
Interest accreted on capital appreciation bonds	(112,438)	
Accreted interest paid	950,000	
Amortization of bond premiums	848,531	
Amortization of defeasance costs	(703,303)	998,694

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 increase	\$ 19,825,947	
Deferred inflows increase	(1,568,927)	
Net pension liability increase	(21,522,735)	(3,265,715)

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		218,648
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Changes in net position of governmental activities (Exhibit B-1)		\$ (99,426)
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Waco Independent School District
Statement of Net Position
Proprietary Fund
August 31, 2016

	Governmental Activities
	Internal Service Fund
Assets	
Current assets:	
Due from other funds	\$ 1,341,104
Total assets	<u>1,341,104</u>
Liabilities	
Current liabilities:	
Accounts payable	<u>18,068</u>
Total current liabilities	<u>18,068</u>
Non current liabilities:	
Claims and judgements	<u>311,089</u>
Total non-current liabilities	<u>311,089</u>
Total liabilities	<u>329,157</u>
Net Position	
Unrestricted net position	<u>1,011,947</u>
Total net position	<u><u>\$ 1,011,947</u></u>

Waco Independent School District
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Fund
Year Ended August 31, 2016

	Governmental Activities
	<hr/>
	Internal Service Fund
	<hr/>
Operating revenues:	
Assessments to other funds	\$ 430,599
Total operating revenues	<hr/> 430,599 <hr/>
Operating expenses:	
Professional and contracted services	91,315
Claims expense	<hr/> 120,636
Total operating expenses	<hr/> 211,951 <hr/>
Change in Net Position	218,648
Net position, beginning	<hr/> 793,299
Net position, ending	<hr/> \$ 1,011,947 <hr/> <hr/>

Waco Independent School District
Statement of Cash Flows
Proprietary Fund
For the Year Ended August 31, 2016

	Governmental Activities
	Internal Service Fund
Cash Flows from Operating Activities	
Cash received from assessments to other funds	\$ 406,097
Cash payments for insurance claims	(314,782)
Cash payments for other operating expenses	(91,315)
Net cash provided by operating activities	-
Net increase in cash and cash equivalents	-
Cash and cash equivalents at beginning of year	-
Cash and cash equivalents at end of year	\$ -
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating income	\$ 218,648
Effects of increases and decreases in current assets and liabilities:	
Increase in due from other funds	(24,502)
Decrease in accounts payable	(12,352)
Decrease in claims liability	(181,794)
Net cash provided by operating activities	\$ -

Waco Independent School District
Statement of Net Position
Fiduciary Funds
August 31, 2016

	<u>Private Purpose Trust Fund</u>	<u>Agency Fund</u>
Assets		
Cash and cash equivalents	\$ 14,385	\$ -
Accrued interest	386	-
Due from other funds	279	33,460
Total assets	<u>15,050</u>	<u>\$ 33,460</u>
Liabilities		
Accounts payable	-	\$ 120
Due to student groups	-	33,340
Total liabilities	<u>-</u>	<u>\$ 33,460</u>
Net Position		
Restricted for scholarships	<u>15,050</u>	
Total net position	<u>\$ 15,050</u>	

Waco Independent School District
Statement of Changes in Net Position
Fiduciary Funds
For the Year Ended August 31, 2016

	<u>Private Purpose Trust Fund</u>
Additions:	
Earnings from temporary investments	\$ 192
Total additions	<u>192</u>
Change in net position	192
Net position, beginning	<u>14,858</u>
Net position, ending	<u><u>\$ 15,050</u></u>

Waco Independent School District
Notes to the Financial Statements
For the Year Ended August 31, 2016

I. Summary of Significant Accounting Policies

A. Reporting entity

The Waco Independent School District (the "District") is a public education agency operating under the applicable laws and regulations of the State of Texas. It is governed by a seven-member Board of Trustees (the "Board") elected by registered voters of the District. The 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.

The District is a financial reporting entity as defined by the Governmental Accounting Standards Board. The District prepares its basic financial statements in conformity with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board and it complies with the requirements of the appropriate version of Texas Education Agency's ("TEA") Financial Accountability System Resource Guide (the "Resource Guide") and the requirements of contracts and grants of agencies from which it receives funds. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable.

Additionally, prescribed criteria under generally accepted accounting principles include considerations pertaining to organizations for which the primary government is financially accountable; and considerations pertaining to 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. The PFC was created in February 1999 for the purpose of constructing a stadium facility for the District and is governed by the same Board that governs the District. In October 1999, the PFC issued general obligation bonds in the amount of \$4,300,000 and signed a lease agreement with the District for the use of the stadium. In addition, the District contributed \$8,539,000 toward the construction of the stadium. Annual lease payments will approximate the debt service requirements for the general obligation bonds.

The District receives support from various PTA, PTO, and Booster club organizations as well as the Waco ISD Education Foundation. Generally accepted accounting principles require the District to report certain legally separate organizations as component units even though the District is not financially accountable for these organizations. These standards promulgated by GASB require that a legally separate tax-exempt organization be reported as a component unit if all of the following criteria are met:

- The economic resources of the separate organization entirely, or almost entirely, directly benefit the primary government, its component units, or its constituents.
- The primary government is entitled to, or can otherwise access, a majority of the economic resources of the separate organization.
- The economic resources of the individual separate organization that the primary government is entitled to, or can otherwise access, are significant to that primary government.

Waco Independent School District
Notes to the Financial Statements
For the Year Ended August 31, 2016

While the various organizations noted above meet the first criteria specified by GASB, none of the organizations meet the second two requirements and are, therefore, not included as component units within the reporting entity.

B. Basis of presentation -- government-wide financial statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report the information on all of the non-fiduciary activities of the primary government and its component units. 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. Likewise, the *primary government* is reported separately from certain legally separate component units for which the primary government is financially accountable.

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, while business-type activities incorporate data from the government's enterprise 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. *Governmental activities*, which include programs supported primarily by taxes, state foundation funds, grants, and other intergovernmental revenues, are reported separately from *business-type activities*, which rely, to a significant extent, on fees and charges for support. There are no business-type activities reported for the District.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function. Examples include tuition paid by students, school lunch charges, etc. Operating 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.

C. Basis of presentation -- 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.

Waco Independent School District
Notes to the Financial Statements
For the Year Ended August 31, 2016

The District reports the following major governmental funds:

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

National School Breakfast and Lunch Program – 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 for debt service is local property taxes.

Capital Projects Funds – The capital projects funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

Additionally, the District reports the following fund type(s):

Other 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. The restricted or committed proceeds of specific revenue sources comprise a substantial portion of the inflows of these special revenue funds. Most federal and some state financial assistance are accounted for in a special revenue fund.

Proprietary funds:

Internal Service Funds - Revenues and expenses related to services provided to organizations inside 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 claims and claims administration, as well as unemployment claims coverage provided to other departments of the District on a cost reimbursement basis.

Fiduciary funds:

Private Purpose Trust Funds - 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 Funds - The District accounts for resources held for others in a custodial capacity in agency funds. The District's agency fund(s) include activity funds of student groups, a regional purchasing cooperative, and regional administration for UIL athletics. 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 units. 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, 2016

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

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; they usually come from exchange or exchange-like transactions. Operating expenses can be tied specifically to the production of the goods and services, such as materials and labor and direct overhead. Other revenues and expenses are non-operating. Since 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.

During the course of operations, the District has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental and internal service funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Interfund activities between governmental funds and fiduciary funds remain as due to/due from on the government-wide Statement of Activities.

Further, certain activity occurs during the year involving transfers of resources between funds. In the fund financial statements, these amounts are reported at gross amounts as transfers in/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.

D. Measurement focus and basis of accounting

1. Basis of accounting

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 imposed by the provider 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.

Waco Independent School District
Notes to the Financial Statements
For the Year Ended August 31, 2016

Expenditures are generally recognized in the accounting period in which the fund liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due. Expenditures related to claims and judgments are recognized when the obligations are expected to be liquidated with expendable, available financial resources. General capital asset acquisitions are reported as expenditures in governmental funds. 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. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (with 60 days of year-end). Accordingly, when such funds are received, they are recorded as deferred revenues until related and authorized expenditures have been made. 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. All other revenue items are considered to be measurable and available only when cash is received by the government.

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 Statement of Net Position. The fund equity is segregated into invested in capital assets net of related debt, 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.

2. *Budgetary control/encumbrance accounting*

Annual budgets are adopted on a basis consistent with generally accepted accounting principles. The official school district budget, as adopted, is recorded in the general ledger. Revenues and expenditures authorized in the budget are controlled in the accounting system and reported in the financial statements. The official school district budget must include the general fund, debt service fund and the food service fund (National School Breakfast and Lunch Program).

Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning. Encumbrances are commitments related to unperformed (executory) contracts for goods or services (i.e., purchase orders, contracts, and commitments). Encumbrances outstanding at year end represent the estimated amount of the expenditures which will ultimately result if unperformed contracts in process at year end are completed.

Appropriations in all budgeted funds lapse at the end of the fiscal year even if they have related encumbrances. While all appropriations and encumbrances lapse at year end, valid outstanding encumbrances (those for which performance under the executory contract is expected in the next year) are reflected in the appropriate restricted, committed, or assigned fund balance classifications and do not constitute expenditures or liabilities because the commitments will be re-appropriated and become part of the subsequent year's budget. As of August 31, 2016, outstanding purchase orders that will be re-appropriated in the subsequent year totaled \$1,235,550 all of which are assigned.

Waco Independent School District
Notes to the Financial Statements
For the Year Ended August 31, 2016

E. Assets, liabilities, deferred outflows/inflows of resources, and net position/fund balance

a. *Deposits and investments*

The District considers highly liquid investments, i.e., cash on hand, demand deposits, public funds investment pools, certificates of deposit and short-term investments with original maturities of one year or less from the date of acquisition to be cash equivalents. The investment pools operate in accordance with appropriate state laws and regulations and are reported at amortized cost or net asset value.

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. Non-negotiable certificates of deposit are reported at cost.

b. *Short-term interfund receivables and payables*

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as either "due to/from other funds", i.e., the current portion of interfund loans, or "advances to/from other funds", i.e., the non-current portion of interfund loans. Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve in applicable governmental funds to indicate that they are not available for appropriation and are not expendable, available financial resources.

c. *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.

d. *Capital assets*

Capital assets, which include land, buildings, equipment, vehicles, and infrastructure assets (e.g. sidewalks, curbs, and similar items), are reported in the government-wide financial statements. Capital assets, except for building 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. Building 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. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized.

Donated capital assets are recorded at acquisition value.

Waco Independent School District
Notes to the Financial Statements
For the Year Ended August 31, 2016

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.

e. *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.

f. *Pension liability*

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

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.

Waco Independent School District

Notes to the Financial Statements

For the Year Ended August 31, 2016

g. *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 reporting 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.

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.

h. *Net position flow assumptions*

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

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i. *Fund balance flow assumptions*

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

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

Restricted fund balance – Represents amounts 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 the National School Breakfast and Lunch fund, restricted by federal regulations, the capital projects fund, restricted for capital asset acquisition, and the debt service fund, restricted for the repayment of bonded debt.

Committed fund balance – Represents amounts that can only be used for a specific purpose because of a formal action taken by the District's Board. 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 District establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. A fund balance commitment is further indicated in the budget document as a commitment of the fund. The commitment of fund balance must be made prior to year-end.

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

Unassigned fund balance – Represents amounts which are unconstrained in that they 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.

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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.

Encumbrances outstanding at year-end are not reported as a separate line item 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 being encumbered. Encumbrances for specific purposes for which amounts have not already been restricted, committed, or assigned are reported as assigned fund balance.

F. Revenues and expenditures/expenses

a. Foundation School Program revenues

Texas public school districts receive funding through the state's Foundation School Program (FSP) in order to provide a basic education for each student. Funding is comprised of local property taxes and state revenues. The local share of FSP is based on a school district's property values. The state's share of the revenue entitlement is based primarily on property wealth and current fiscal factors such as: student attendance, the number of students in special populations, and the local tax effort.

The funding is two-tiered. Tier I consists of a basic allotment per student plus categorical aid for special population students. The basic allotment is established by the legislature each biennium. Tier I is calculated by multiplying the basic allotment amount by the average daily attendance (ADA), with adjustments for special population students. Allocations for categorical aid must be used for related programs. However, up to 45 percent of the allotment may be used as indirect cost to defray the cost of administering the programs. Tier II is a guaranteed yield program that provides enrichment for each cent of tax effort that exceed the district's compressed tax rate.

The amount of FSP revenue a school district earns in the fiscal year is dependent on final values for each of the factors in the formula. Allocations, and subsequent distributions, are based on legislative estimates. When a school district earns less than the allocation, TEA recovers the excess amount in the following year by reducing allocations for that year. If a school district earns more than the allocations received, the difference is adjusted in September of the following year. Calculated underpayments are recorded as a receivable from the state at year end. Conversely, overpayments are recorded as a liability, due to the state. At August 31, 2016, the District recorded, in the general fund, a payable to the state in the amount of \$202,114 for estimated overpayments based on currently known factors.

In addition to the FSP, the state provides facilities funding assistance to local school districts. The Existing Debt Allotment (EDA) program provides a guaranteed yield on interest and sinking fund (I&S) taxes levied by the district to pay the principal and interest on eligible bonds. Currently, the guaranteed yield for EDA provides \$35 per student in ADA. The Instructional Facilities Allotment (IFA) program provides assistance to districts in making debt service payments on qualifying bond or lease-purchase agreements. Because these programs are also dependent on final values for factors in the formulas, at August 31, 2016, the District recorded, in the debt service fund, a payable to the state in the amount of \$148,445 for estimated overpayments.

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Notes to the Financial Statements
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b. *Property taxes*

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property 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 (1) when they become due or past due and receivable within the current period and (2) when they are expected to be collected during a 60-day period after the close of the school fiscal year.

The certified taxable value at January 1, 2015, on which the 2015 levy was based, was \$4,600,827,921. The District's maintenance and operations rate levied in 2015 was \$1.17 per \$100 of valuation which was the maximum rate allowed under tax rate limitations established by House Bill No. 1, Acts of the 79th Legislature, 3rd Called Session, 2006. The rate levied for debt service in 2015 was \$0.23 per \$100 of valuation.

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, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

c. *Compensated absences*

Compensated absences - District employees are entitled to sick leave days earned by them for services performed. Vacation days are non-duty days, lapse at the end of each year and have not been accrued. Sick days do accumulate, but employees are not paid the benefits upon termination. Consequently, there is no liability for unpaid accumulated sick leave.

G. *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.

H. *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.

I. *New accounting standards*

In the current fiscal year, the District implemented the following new accounting standards. The applicable provisions of these new standards are summarized below. Implementation is reflected in the financial statements and the notes to the financial statements.

GASB Statement No. 72, *Fair Value Measurement and Application*, addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants

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at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes and for applying fair value to certain investments and disclosures related to all fair value measurements.

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, clarifies the application of certain provisions of Statement No. 68 with regard to information that is required to be presented as notes to the 10-year schedules of required supplementary information about investment-related factors that significantly affect trends in the amounts reported.

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures include information about any limitations or restrictions on participant withdrawals.

II. Stewardship, Compliance, and Accountability

A. Budgetary information

1. Budgetary data

While the District's official budget, as legally adopted, 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.

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 *Resource Guide*. The District's budget administrators may make transfers of appropriations within a function. Transfers of appropriations between functions require the approval of the Board. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is 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.

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Special revenue funds, other than the National School Breakfast and Lunch program and funds previously listed, do not have appropriated budgets since other means control the use of these resources (e.g., grant awards and endowment requirements) and sometime span a period of more than one fiscal year. While budgets are not legally adopted for other special revenue funds, capital projects funds, or the internal services fund, budgets are prepared for these funds as a management tool to ensure that resources were 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.

2. *Excess of expenditures over appropriations*

While expenditures for debt service are appropriated in function 71, debt service, the fund financial statements break out expenditures for principal, interest, and issuance costs and fees into separate data control codes. Although the *Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual* for the general fund, Schedule G-1, shows interest on long-term debt expenditures exceeding appropriated amounts by \$164, total expenditures for debt services did not exceed the amended budget for function 71. Likewise, a similar situation occurs in the debt service fund, Schedule J-3, which shows principal on long-term debt expenditures exceeding appropriated amounts by \$1,870,001, again, total expenditures for debt services did not exceed the amended budget for function 71. All other functional expenditures did not exceed appropriations for the year ended August 31, 2016.

III. Detailed Notes on All Activities and Funds

A. Deposits and investments

1. *District policies and legal and contractual provisions governing deposits*

Cash Deposits: The District's funds are required to be deposited and invested under the terms of a depository contract pursuant to the Texas School Depository Act. 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. The combined balance of cash, savings and time deposit accounts with the District's depository financial institution on August 31, 2016 amounted to \$6,958,506, which was secured by FDIC insurance and/or the letter of credit issued in the amount of \$45,000,000.

Investments: 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 invest any of its funds in direct debt securities of the United States or other types of bonds, securities and warrants in accordance with applicable provisions.

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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.

2. Summary of investment accounts

For fiscal year 2016, the District invested in certificates of deposits (direct purchase bank issue and brokered) and public funds investment pools.

Certificates of Deposit – 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.
- The *Insured Cash Shelter (ICSA)* is a program offered by USA Mutuals Partners, Inc., which invests deposits into interest-bearing CDs at financial institutions throughout the U.S. in a manner that maintains full insurance of the funds by the FDIC. Charity Deposits Corp. acts as the administrator of the Deposit Network. Wells Fargo Bank, N.A., is the primary custodian bank for all deposits and Huntington National Bank is the subcustodian. U.S. Bancorp Fund Services provides processing services for the ICSA product. 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. Liquidity is at par plus interest, without any early termination penalties or fees.
- 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.

Waco Independent School District

Notes to the Financial Statements

For the Year Ended August 31, 2016

GASB Statement No. 72, paragraph 69, applies the provisions of GASB Statement No. 31, paragraph 8, in measuring the fair value of nonparticipating contracts, such as nonnegotiable certificates of deposit with redemption terms that do not consider market rates. Such investments should be reported using a cost-based measure, provided that the fair value of those contracts is not significantly affected by the impairment of the credit standing of the issuer or other factors.

Investment Pools – The District deposits funds in a number of public funds investment pools meeting the requirements of Government Code 2256.016 and 2256.019. Investment in a particular pool is authorized by resolution of the Board of Trustees. The following investment pools are utilized by the District.

- *Texas Local Government Investment Pool (TexPool)* - The Comptroller of Public Accounts (the “Comptroller”) is the sole officer, director and shareholder of the Texas Treasury Safekeeping Trust Company which is authorized to operate TexPool. TexPool is administered and managed by Federated Investment Counseling. State Street Bank serves as the custodial bank. The portfolio consists of U.S. Government securities; collateralized repurchase and reverse repurchase agreements; no-load money market mutual funds regulated by the Securities and Exchange Commission (SEC). TexPool operates in a manner consistent with the SEC’s Rule 2a-7 of the Investment Company Act of 1940. GASB No. 79 delinks money market local government investment pools (LGIPs) to SEC Rule 2a-7 and enables such pools to continue to utilize amortized cost for valuation and financial reporting so that the \$1.00 per unit value they pursue will not need to change to a fluctuating price.
- *Texas CLASS* – Texas CLASS is organized under the Sixth Amended and Restated Trust Agreement in accordance with all the requirements contained in section 2256.016 of the PFIA. Texas CLASS is administered by Public Trust Advisors, LLC, and all funds are held by the custodial agent, Wells Fargo N.A. Texas CLASS may invest in obligations of the U.S. or its agencies and instrumentalities; repurchase agreements; SEC-registered money market funds rated in the highest rating category by at least one NRSRO; and commercial paper rated A-1, P-1, or equivalent by two nationally recognized rating agencies. The pool is governed by a board of trustees, elected annually by its participants. The public funds investment pool was created as a wholly-owned subsidiary of a publicly traded company. Texas CLASS is measured at Net Asset Value (NAV) and, as the external investment pool does not meet all the criteria in the Statement, GASB No. 79 is not applicable to the fund.
- *Lone Star Investment Pool* - Lone Star is a member-owned and governed public funds investment pool duly chartered by the State of Texas Interlocal Cooperation Act, is administered by First Public, LLC, and managed by Standish Mellon Asset Management and American Beacon Advisors. State Street Bank and Trust Company is the custodial bank. Lone Star is restricted to invest in obligations of the U.S. or its agencies and instrumentalities; other obligations insured by the U.S.; fully collateralized repurchase agreements having a defined termination date, secured by obligations described previously; and SEC-regulated no-load money market mutual funds, the assets which consist exclusively of the obligations described above. The District has investments in the Government Overnight Fund and the Corporate Overnight Plus Fund. The Government Overnight Fund uses amortized cost and operates pursuant to investment strategies, operating procedures, and protocols that meet the criteria of GASB No. 79. The Corporate Overnight Plus Fund does not measure all of its investments using amortized cost and thus GASB No. 79 is not applicable to the fund.

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- *TexasTERM / TexasDAILY Local Government Investment Pool* – TexasTERM is a Texas public funds investment pool. PFM Asset Management, LLC, serves as the investment advisor and administrator of the pool. U.S. Bank National Association is the custodial bank. TexasTERM offers four investment options available to government entities in the State of Texas. The District currently invests the TexasDAILY Fund, a money market portfolio which invests only in authorized investments under the Public Funds Investment Act with daily liquidity. The TexasDAILY Fund operates consistent with the SEC’s Rule 2a-7 of the Investment Company Act of 1940. The TexasDAILY Fund uses amortized cost rather than market value to report net assets to compute share prices.
- *Texas Short Term Asset Reserve Fund (TexSTAR)* -- TexSTAR is a Texas public funds investment pool co-administered by J.P. Morgan Chase and First Southwest Asset Management, Inc., a Division of Hilltop Securities. Depository services are provided by JPMorgan Chase Bank, N.A. and/or its subsidiary J.P. Morgan Investor Services Co. TexSTAR’s Cash Reserve Fund restricts investment of the portfolio to obligations of or guaranteed or insured by the U.S.; fully collateralized repurchase agreements and reverse repurchase agreements having a defined termination date, and secured by cash or any obligation secured by the full faith and credit of the U.S. or its agencies or its instrumentalities, including FDIC; and no-load money market mutual funds which meet the requirements of the PFIA. TexSTAR is in compliance with GASB No. 79 as the Fund has elected to measure its investments at fair value, even though the Fund may meet all criteria under GASB No. 79 to report at amortized cost.

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.

Waco Independent School District
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The District's investment balances (including the Private Purpose Trust Fund), weighted average maturity, and credit risk of such investments are as follows:

	Cash and Cash Equivalents	Current Investments	Long-term Investments	Percent of Total Investments	Weighted Average Maturity (Days)	Credit Risk
Cash and cash equivalents	\$ 5,208,110					
Investments measured at cost:						
Certificates of Deposit		\$ 15,560,560	\$ 3,458,000	34%	241	FDIC Insured
Investments measured at amortized cost:						
Investment Pools						
LoneStar-Government Overnight		30		0%	23	AAAm
TexasDAILY		853,549		2%	43	AAAm
TexPool		<u>27,931,724</u>		50%	42	AAAm
		<u>28,785,303</u>				
Investments measured at net asset value (NAV):						
Investment Pools						
LoneStar-Corporate Overnight Plus		6,407,744		11%	41	AAAFS1+
Texas CLASS		1,602,851		3%	47	AAAm
TexSTAR		177,706		0%	39	AAAm
Dreyfus Money Market Funds		<u>9,107</u>	-	0%	1	Not Rated
		<u>8,197,408</u>				
	<u>5,208,110</u>	<u>15,560,560</u>	<u>3,458,000</u>	<u>34%</u>		
Total	<u>\$ 5,208,110</u>	<u>\$ 52,543,271</u>	<u>\$ 3,458,000</u>	<u>66%</u>		
Portfolio weighted average maturity					<u>366</u>	

Investment Pools are measured at amortized cost or net asset value (NAV) and are exempt from fair value reporting.

The TexPool, Lone Star Government Overnight Fund, 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, quality, liquidity, and diversification requirements within the investment pool. The investment pools transact at a net asset value of \$1.00 per share, have a weighted average maturity of 60 days or less and a weighted average life of 120 days or less, investments held are highly rated by nationally recognized statistical rating organizations, have no more than 5 percent of the portfolio with one issuer (excluding U.S. government securities), and can meet reasonably foreseeable redemptions. These pools have a redemption notice period of one day and no maximum transaction amounts. The investment pools' authorities may only impose restrictions on redemptions in the event of a general suspension of trading on major securities' markets, general banking moratorium, or national or state emergency that affects the pools' liquidity.

The Lone Star Corporate Overnight Plus Fund, Texas CLASS, TexSTAR, and the Dreyfus Money Market Fund are external investment pools and money market funds that are measured at net asset value. The investment pools' strategies are to seek preservation of principal, liquidity, and current income through investment in a diversified portfolio of short-term marketable securities. The 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' markets, general banking moratorium, or national or state emergency that affects the pools' liquidity. The money market fund may be redeemed daily.

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3. *Specific risks of investments*

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. At August 31, 2016, TexasCLASS, TexPool, TexSTAR, Lone Star, and Texas Government Overnight DAILY are rated 'AAAm' by Standard and Poor's and Lone Star Corporate Overnight Plus is rated 'AAAs1+'.

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. All of the securities are held by the Federal Reserve Bank of New York.

Concentration of Credit Risk -- To limit the risk of loss attributed to the magnitude of a government's investment in a single issuer, District policy requires that the investment portfolio be diversified in terms of investment instruments, maturity scheduling and issuer. The District 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.

Interest Rate Risk -- 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 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.

B. Receivables

Amounts are aggregated into receivables for certain major funds and aggregated columns. Below is the detail of receivables for the general fund, National School Breakfast and Lunch program, the debt service fund, and the non-major governmental funds.

Funds	General Fund	National School Breakfast & Lunch Pgm	Debt Service Fund	Non-major Governmental Funds	Total
Property taxes, delinquent	\$2,539,640	\$ -	\$ 580,390	\$ -	\$3,120,030
Receivables from other governments	88,017	403,039	30,783	3,043,132	3,564,971
Interest	45,712	-	-	-	45,712
Other	8,904	-	-	74,998	83,902
Gross receivables	2,682,273	403,039	611,173	3,118,130	6,814,615
Less: Allowance for uncollectible taxes	(1,761,904)	-	(409,206)	-	(2,171,110)
Net receivables	<u>\$ 920,369</u>	<u>\$ 403,039</u>	<u>\$ 201,967</u>	<u>\$ 3,118,130</u>	<u>\$4,643,505</u>

At August 31, 2016, the private interest trust fund has an accrued interest receivable of \$387.

Approximately 69% of the outstanding balance of property taxes receivable is not anticipated to be collected within the next year.

Waco Independent School District

Notes to the Financial Statements

For the Year Ended August 31, 2016

The District participates in a variety of federal and state programs from which it receives grants and/or reimbursements to partially or fully finance certain activities. In addition, the District receives entitlements from the State through the School Foundation and Per Capita Programs. Amounts due from other governments as of August 31, 2016 are summarized below.

Fund	State Entitlements	Federal Grants and Reimbursements	Other Governments	Total
General fund	\$ 78,436	\$ 9,581	\$ -	\$ 88,017
National School Breakfast & Lunch Program	-	403,039	-	403,039
Debt Service fund	30,783	-	-	30,783
Non-major governmental funds	20,173	2,906,798	116,161	3,043,132
Total	<u>\$ 129,392</u>	<u>\$ 3,319,418</u>	<u>\$ 116,161</u>	<u>\$3,564,971</u>

C. Interfund balances and transfers

Interfund balances result from the time lag between the dates that reimbursable expenditures occur and payments between funds are made. Interfund balances at August 31, 2016, consisted of the following:

Funds	Receivable	Payable
General fund	\$ 3,207,347	\$ 4,139,376
National School Breakfast and Lunch fund	-	301,110
Debt Service fund	1,872,264	-
Capital Projects funds	-	102,614
Other non-major governmental funds	892,269	2,803,622
Internal Service fund	1,341,104	-
Private Purpose Trust fund	278	-
Agency funds	33,460	-
	<u>\$ 7,346,722</u>	<u>\$ 7,346,722</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, 2016, operating transfers were made between the following funds:

Funds	Transfer In	Transfer Out
General fund	\$ -	\$ 1,928,616
Other non-major governmental funds:		
Greater Waco Advanced Academies	55,602	-
Debt Service fund	1,873,014	-
	<u>\$ 1,928,616</u>	<u>\$ 1,928,616</u>

During the fiscal year ended August 31, 2016, the district made the following one-time transfers:

- A transfer of \$55,602 from the general fund to a special revenue fund to cover the operating deficit for the Greater Waco Advanced Manufacturing/Health Care Academies.
- A transfer of \$1,873,014 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, 2016

D. Capital assets

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

	Balance September 1, 2015	Additions	Retirements and Transfers	Balance August 31, 2016
<i>Capital assets, not being depreciated:</i>				
Land	\$ 9,287,690	\$ -	\$ -	\$ 9,287,690
Construction in progress	845,321	380,250	(1,180,264)	45,307
Total capital assets, not being depreciated	10,133,011	380,250	(1,180,264)	9,332,997
<i>Capital assets, being depreciated:</i>				
Buildings and improvements	280,098,148	-	1,180,264	281,278,412
Furniture, equipment, and vehicles	29,293,999	1,919,856	(471,793)	30,742,062
Total capital assets, being depreciated	309,392,147	1,919,856	708,471	312,020,474
Less accumulated depreciation for:				
Buildings and improvements	94,633,740	5,958,583	-	100,592,323
Furniture, equipment, and vehicles	19,686,081	2,865,957	(464,542)	22,087,496
Total accumulated depreciation	114,319,821	8,824,540	(464,542)	122,679,819
Total capital assets, being depreciated, net	195,072,326	(6,904,684)	1,173,013	189,340,655
Governmental activities capital assets, net	<u>\$ 205,205,337</u>	<u>\$ (6,524,434)</u>	<u>\$ (7,251)</u>	<u>\$ 198,673,652</u>

Depreciation expense of the governmental activities for the year ended August 31, 2016 was charged to the functions as follows:

Function	Description	Amount
11	Instruction	\$ 5,412,968
12	Instructional resources and media services	244,611
13	Curriculum and instructional staff development	15,117
21	Instructional leadership	104,762
23	School leadership	127,215
31	Guidance, counseling, and evaluation services	34,422
32	Social work services	600
33	Health services	33,524
34	Student transportation services	640,216
35	Food services	471,831
36	Extracurricular activities	729,905
41	General administration	165,146
51	Plant maintenance and operations	367,414
52	Security and monitoring services	102,627
53	Data processing services	345,673
61	Community services	28,509
	Total depreciation expense - governmental activities	<u>\$ 8,824,540</u>

Waco Independent School District
Notes to the Financial Statements
For the Year Ended August 31, 2016

E. 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 District issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. Maintenance tax notes were issued in 2006 to provide funds for the purchase of school buses. Revenue bonds were issued in 1999 to provide funds for the construction of an athletics facility for the District.

1. Changes in long-term liabilities

Long-term liability activity for the year ended August 31, 2016, was as follows:

	Balance September 1, 2015	(Provisions) and Additions	Reductions	Balance August 31, 2016	Due Within One Year
Bonds payable:					
General obligation bonds	\$ 174,185,000	\$ 47,120,000	\$ (55,105,000)	\$ 166,200,000	\$ 6,405,000
Lease revenue bonds	1,545,000	-	(275,000)	1,270,000	290,000
Maintenance tax notes	570,000	-	(570,000)	-	-
Premiums	12,882,912	11,068,980	(2,243,628)	21,708,264	-
Accumulated accretion	5,693,948	112,438	(3,157,501)	2,648,885	-
Total bonds payable, net	194,876,860	58,301,418	(61,351,129)	191,827,149	6,695,000
Claims	492,883	19,195	(200,989)	311,089	-
Net pension liability	14,190,662	27,168,194	(5,645,459)	35,713,397	-
Total long-term liabilities	<u>\$ 209,560,405</u>	<u>\$ 85,488,807</u>	<u>\$ (67,197,577)</u>	<u>\$ 227,851,635</u>	<u>\$ 6,695,000</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.

2. 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 20 to 30-year 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. With the refunding of the 2009 Series, the \$166,200,000 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, 2016

General obligation bonds outstanding at August 31, 2016 are as follows:

Series	Interest Rate	Original Issue Amount	Maturity Date	Beginning Balance	Additions	Reductions	Ending Balance
2006	4.00%	\$ 4,650,000	2022	\$ 4,240,000	\$ -	\$ (4,240,000)	\$ -
2006 (CAB)	4.23%	45,000	2020	45,000	-	-	45,000
2008	4.00%-5.25%	132,670,000	2030	5,485,000	-	(2,685,000)	2,800,000
2009	3.00%-5.00%	42,145,000	2038	41,840,000	-	(41,840,000)	-
2009 (CAB)	1.00%-5.28%	3,355,000	2022	2,705,000	-	(2,705,000)	-
2010	2.00%-3.25%	7,550,000	2020	6,890,000	-	(870,000)	6,020,000
2010 (CAB)	3.02%	25,000	2016	25,000	-	(25,000)	-
2013	0.28%-4.00%	9,635,000	2020	7,965,000	-	(1,480,000)	6,485,000
2014	2.00%-4.00%	8,320,000	2025	8,135,000	-	(10,000)	8,125,000
2014 (CAB)	2.70%	150,000	2023	150,000	-	-	150,000
2015	2.00%-5.00%	96,730,000	2038	95,450,000	-	(315,000)	95,135,000
2015 (CAB)	1.30%	1,255,000	2018	1,255,000	-	-	1,255,000
2016	2.00%-5.00%	47,120,000	2038	-	47,120,000	(935,000)	46,185,000
Totals -- bonds payable at original par value				174,185,000	47,120,000	(55,105,000)	166,200,000
Deferred amounts:							
For issuance premiums				12,882,912	11,068,980	(2,243,628)	21,708,264
For accreted interest				5,693,948	112,438	(3,157,501)	2,648,885
Totals -- bonds payable, net				<u>\$ 192,761,860</u>	<u>\$ 58,301,418</u>	<u>\$ (60,506,129)</u>	<u>\$ 190,557,149</u>

General obligation bonds mature serially and the capital appreciation bonds accrete in value through 2022. Debt service requirements for general obligation bonds are as follows:

Year Ended August 31,	Principal	Interest	Total
2017	\$ 6,405,000	\$ 7,142,381	\$ 13,547,381
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
2022-2026	31,560,000	26,557,700	58,117,700
2027-2031	36,815,000	19,012,150	55,827,150
2032-2036	45,325,000	10,519,000	55,844,000
2037-2038	20,970,000	1,363,100	22,333,100
	<u>166,200,000</u>	<u>\$ 93,759,406</u>	<u>\$259,959,406</u>

Waco Independent School District
Notes to the Financial Statements
For the Year Ended August 31, 2016

A portion of the bonds sold in 2006, 2009, 2010, 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, 2016.

Series	Accreted Value	Original Amount Outstanding	Ending Value Accreted Interest
Unlimited Tax Refunding Bonds, Series 2006	\$ 634,374	\$ 45,000	\$ 589,374
Unlimited Tax Refunding Bonds, Series 2014	302,524	150,000	152,524
Unlimited Tax Refunding Bonds, Series 2015	3,161,987	1,255,000	1,906,987
Total	<u>\$ 4,098,885</u>	<u>\$ 1,450,000</u>	<u>\$ 2,648,885</u>

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, 2016. 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 2015 tax year was \$0.23000.

As of August 31, 2016, the District had no authorized but unissued unlimited tax bonds.

3. Advance refunding

The district issued refunding bonds during the year ended August 31, 2016, to refinance existing debt. In June 2016, the District issued \$47,120,000 of refunding bonds. The proceeds of the refunding bonds were used to legally defease \$48,510,000 of previously issued District bonds in order to lower its overall debt service requirements. The reacquisition price exceeded the net carrying value of the old debt by \$5,661,529. The District advance-refunded the bonds in order to reduce its future debt service payments by \$8,690,637 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$7,023,583.

In prior years, the District defeased certain outstanding bonds by placing the proceeds of new bonds in an irrevocable trust to provide for future debt service payments on the old bonds. Accordingly, the respective trust account assets and related liabilities for the defeased bonds are not included in the District’s financial statements.

At year end, the following outstanding bonds are considered defeased:

Series	Balance at August 31
Unlimited Tax School Building Bonds, Series 2008	\$106,455,000
Unlimited Tax School Building Bonds, Series 2009	<u>\$ 44,320,000</u>
Total	<u>\$150,775,000</u>

Waco Independent School District
Notes to the Financial Statements
For the Year Ended August 31, 2016

4. 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
2017	\$ 290,000	\$ 61,875	\$ 351,875
2018	310,000	45,375	355,375
2019	325,000	27,913	352,913
2020	345,000	9,487	354,487
	\$ 1,270,000	\$ 144,650	\$ 1,414,650

5. 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. Arbitrage calculations were prepared for the 2008 and 2009 series bonds and, as of August 31, 2016, there was no arbitrage rebate liability on the issued bonds.

F. Pension obligations under defined benefit retirement plan

1. 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.

Waco Independent School District
Notes to the Financial Statements
For the Year Ended August 31, 2016

2. Pension plan fiduciary net position

Detailed information about the Teacher Retirement System's fiduciary net position is available in a separately-issued Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained 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.

3. Benefits provided

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

4. Contributions

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

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

	Contribution Rates		
	2016	2015	2014
Member	7.2%	6.7%	6.4%
Non-Employer Contributing Entity (State)	6.8%	6.8%	6.8%
Employers	6.8%	6.8%	6.8%

The contribution amounts for the District's fiscal year 2016 are as follows:

Employer Contributions	\$ 3,122,988
Member Contributions	\$ 6,552,865
Non-Employer Contributing Entity On-Behalf Contributions (State)	\$ 4,287,773

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

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

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

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

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

5. Actuarial assumptions

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

Valuation Date	August 31, 2015
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Single Discount Rate	8.00%
Long-term Expected Investment Rate of Return	8.00%
Inflation	2.50%
Salary Increases Including Inflation	3.50% to 9.50%
Payroll Growth Rate	2.50%
Benefit Changes During the Year	None
Ad hoc Post-employment Benefit Changes	None

Waco Independent School District
Notes to the Financial Statements
For the Year Ended August 31, 2016

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

6. Discount rate

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

Best estimates of geometric real rates of return for each major asset class included in the System's target asset allocation as of August 31, 2015 are summarized below:

Asset Class	Target Allocation	Real Return Geometric Basis	Long-term Expected Portfolio Real Rate of Return ¹
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			
Risk Parity	5%	6.7%	0.3%
Inflation Expectation			2.2%
Alpha			1.0%
Total	100%		8.7%

¹ The Expected Contribution to Returns incorporates the volatility drag resulting from the conversion between Arithmetic and Geometric mean returns

Waco Independent School District
Notes to the Financial Statements
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7. *Discount rate sensitivity analysis*

The following schedule shows the impact of the Net Pension Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (8%) in measuring the 2015 Net Pension Liability.

	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:	\$ 55,956,161	\$ 35,713,397	\$ 18,852,432

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

At August 31, 2016, the District reported a liability of \$35,713,397 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	\$ 35,713,397
State's proportionate share that is associated with the District	45,090,294
Total	<u>\$ 80,803,691</u>

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

At August 31, 2015 the employer's proportion of the collective net pension liability was 0.1010318% which was an increase of 0.0479059% from its proportion measured as of August 31, 2014.

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

Economic Assumptions:

- The inflation assumption was decreased from 3.00% to 2.50%
- The ultimate merit assumption for long-service employees was decreased from 1.25% to 1.00%
- In accordance with the observed experience, there were small adjustments in the service-based promotional/longevity component of the salary scale.
- The payroll growth assumption was lowered from 3.50% to 2.50%

Mortality Assumptions:

- The post-retirement mortality tables for non-disabled retirees were updated to reflect recent TRS member experience. Mortality rates will be assumed to continue to improve in the future using a fully generational approach and Scale BB.
- The post-retirement mortality tables for disabled retirees were updated to reflect recent TRS member experience. Mortality rates will be assumed to continue to improve in the future using a fully generational approach and Scale BB.

Waco Independent School District
Notes to the Financial Statements
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- The pre-retirement mortality tables for active employees were updated to use 90% of the recently published RP-2014 mortality table for active employees. Mortality rates will be assumed to continue to improve in the future using a fully generational approach and Scale BB.

Other Demographic Assumptions:

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

Actuarial Methods and Policies:

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

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

For the year ended August 31, 2016, the District recognized pension expense of \$9,690,356 and revenue of \$6,424,641 for support provided by the State.

At August 31, 2016, 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 actuarial economic experiences	\$ 182,520	\$ 1,372,498
Changes in actuarial assumptions	767,137	1,274,098
Difference between projected and actual investment earnings	8,795,414	3,252,936
Changes in proportion and differences between the employer's contributions and the proportionate share of contributions	10,947,276	10,361
Contributions paid to TRS subsequent to the measurement date	3,122,988	
Total	<u>\$23,815,335</u>	<u>\$ 5,909,893</u>

Waco Independent School District
Notes to the Financial Statements
For the Year Ended August 31, 2016

The \$3,122,988 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, 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
2017	\$ 2,711,103
2018	2,711,103
2019	2,711,103
2020	3,795,415
2021	1,585,181
Thereafter	1,268,549
Total	<u>\$ 14,782,454</u>

G. 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	\$ 102,884
Other governmental funds	
Grant funds received prior to meeting eligibility requirements	467,059
Total	<u>\$ 569,943</u>

H. Fund balance

The Board has adopted a financial policy to maintain a sufficient fund balance in the general fund to provide fiscal stability when economic downturns and other unexpected events occur. The District has established target level for the unassigned fund balance of 20 percent of the general fund annual operating expenditures. If fund balance falls below a minimum level of 16.7 percent, because it has been essentially used as a revenue source, the administration must take steps to restore the fund balance to the target level.

By resolution, the Board may commit a portion of the unrestricted fund balance for a specific purpose. At August 31, 2016, the District has committed fund balance in the general fund for construction and other major improvement projects in the amount of \$4.7 million, with an additional \$0.8 million committed for capital expenditures for equipment and other projects.

Waco Independent School District
Notes to the Financial Statements
For the Year Ended August 31, 2016

Additionally, the Superintendent or designee is authorized 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. At August 31, 2016, the District has assigned \$1.7 million for capital expenditures for equipment, outstanding purchase orders that will be re-appropriated in 2017, and campus activity funds.

I. Revenue from local and intermediate sources

During the current year, revenues from local and intermediate sources consisted of the following:

	General Fund	National School Breakfast and Lunch Fund	Debt Service Fund	Capital Projects Funds	Non-major Governmental Funds	Total
Property taxes	\$ 53,043,401	\$ -	\$ 10,483,170	\$ -	\$ -	\$ 63,526,571
Other tax related income	580,671	-	127,479	-	-	708,150
SSA revenue from						
member districts	59,212	-	-	-	1,295,125	1,354,337
Services to other districts	-	-	-	-	385,510	385,510
Tuition and fees	161,563	-	-	-	448,308	609,871
Investment income	220,434	836	22,872	1,089	-	245,231
Rental income	174,845	-	-	-	-	174,845
Gifts and bequests	-	-	-	-	537,710	537,710
Food sales	-	688,102	-	-	-	688,102
Extracurricular activities	524,699	-	-	-	157,163	681,862
Other charges for services	185,004	-	-	-	587,051	772,055
	<u>\$ 54,949,829</u>	<u>\$ 688,938</u>	<u>\$ 10,633,521</u>	<u>\$ 1,089</u>	<u>\$ 3,410,867</u>	<u>\$ 69,684,244</u>

J. Retiree health plan

1. 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.

2. 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.

Waco Independent School District
Notes to the Financial Statements
For the Year Ended August 31, 2016

Contribution rates and amounts are shown in the table below for fiscal years 2016, 2015, and 2014.

Contribution Rates and Contribution Amounts						
Year	Member		State		School District	
	Rate	Amount	Rate	Amount	Rate*	Amount
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
2014	0.65%	\$ 507,095	1.00%	\$ 710,944	0.55%	\$ 532,664

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

3. *Federal government retiree drug subsidy - Medicare, Part D*

The Medicare Modernization Act of 2003 (MMA) created an outpatient prescription drug benefit program (known as Medicare Part D) and a Retiree Drug Subsidy (RDS) program which were made available in 2006. The Texas Public School Retired Employee Group Insurance Program (TRS-Care) offers a Medicare Part D Plan and is participating in the Retiree Drug Subsidy plan for eligible TRS-Care participants. Under Medicare Part D and the RDS program, TRS-Care receives payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. On-behalf payments must be recognized as equal revenues and expenditures/expenses by each reporting entity.

The allocation of these on-behalf payments is based on the ratio of a reporting entity's covered payroll to the entire covered payroll reported by all participating reporting entities. TRS bases this allocation percentage on the "completed" report submissions by reporting entities for the month of May.

For the years ended August 31, 2016, 2015, and 2014, the subsidy payments made by the TRS-Care on behalf of the District are as follows:

Fiscal Year	Medicare Part D On-behalf Payments
2016	\$ 350,191
2015	336,636
2014	203,437

K. Risk Management

1. *Workers' compensation*

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

The 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.

Waco Independent School District
Notes to the Financial Statements
For the Year Ended August 31, 2016

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

The Fund engages the services of independent auditors to conduct a financial audit after the close of each year on August 31. The audit is accepted by the Fund's Board of Trustees in February of the following year. The Fund's audited financial statements as of August 31, 2016, are available on the TASB Risk Management Fund website and have been filed with the Texas Department of Insurance.

For the 2015-16 plan year, the excess coverage insurance policy covers claims in excess of \$731,773. The Fund performs an evaluation of workers' compensation claims submitted incidents occurring prior to August 31, 2016, and has projected open claims and incurred but not reported claims for all years will cost \$253,817. The District has not significantly reduced insurance coverage during the past three years or had settlements which exceeded coverage.

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

<u>Fiscal Year</u>	<u>Beginning of Year Accrual</u>	<u>Claims Payments</u>	<u>Current Year Expense</u>	<u>End of Year Accrual</u>
2016	\$ 492,883	\$ 200,989	\$ 19,195	\$ 311,089
2015	741,970	280,687	31,600	492,883
2014	830,231	405,853	317,592	741,970

2. *Auto liability, general liability, and legal liability*

During the year ended August 31, 2016, 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, 2016, the Fund anticipates that the District has no additional liability beyond the contractual obligations for payment of contributions.

The Fund engages the services of independent auditors to conduct a financial audit after the close of each year on August 31. The audit is accepted by the Fund's Board of Trustees in February of the following year. The Fund's audited financial statements as of August 31, 2016, are available on the TASB Risk Management Fund website and have been filed with the Texas Department of Insurance.

Waco Independent School District
Notes to the Financial Statements
For the Year Ended August 31, 2016

L. Shared service arrangements

1. *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.

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

<u>Member District</u>	<u>Percent of Students</u>	<u>Allocated Expenditures</u>
Axtell	0.61%	\$ 4,157
Bosqueville	0.13%	886
Bruceville-Eddy	2.13%	14,514
China Spring	0.62%	4,225
Connally	5.90%	40,203
Crawford	0.01%	68
La Vega	5.24%	35,706
Lorena	0.58%	3,952
Mart	0.20%	1,363
McGregor	0.53%	3,611
Midway	5.01%	34,138
Moody	0.86%	5,860
Riesel	0.42%	2,862
Robinson	5.20%	35,433
Waco	71.36%	486,251
West	1.20%	8,177
Total	<u>100.00%</u>	<u>\$ 681,406</u>

2. *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 has accounted for the fiscal agent's activities of the SSA in a Special Revenue Fund.

Waco Independent School District
Notes to the Financial Statements
For the Year Ended August 31, 2016

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

<u>Member District</u>	<u>Percent of Students</u>	<u>Allocated Expenditures</u>
Axtell	0.5%	\$ 3,562
Chilton	3.8%	26,544
Connally	9.7%	67,407
La Vega	1.0%	7,125
Midway	3.8%	26,544
Rapoport	0.5%	3,562
Robinson	3.8%	26,544
Waco	65.5%	457,529
Whitney	11.4%	79,701
Total	<u>100.0%</u>	<u>\$ 698,518</u>

M. Economic dependency

During the year ended August 31, 2016, the District received 45 percent of its revenues from the State of Texas and 16 percent from federal sources.

N. Litigation, commitments and contingencies

1. 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, 2016, 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 such amounts to be immaterial, if any.
2. Construction Commitments -- As of August 31, 2016, the District was party to construction contracts totaling \$2,902,000 (excluding change orders) with a remaining commitment of \$1,236,515.
3. Litigation -- 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
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
General Fund
For the Year Ended August 31, 2016

Data Control Codes		Budgeted Amounts		Actual Amounts	Variances
		Original	Final	(GAAP Basis)	With Final Budget
Revenues					
5700	Local and intermediate sources	\$ 54,275,646	\$ 54,476,476	\$ 54,949,829	\$ 473,353
5800	State program revenues	76,510,623	76,542,389	75,927,180	(615,209)
5900	Federal program revenues	3,000,409	3,330,616	4,407,584	1,076,968
5020	Total revenues	133,786,678	134,349,481	135,284,593	935,112
Expenditures					
Current:					
6011	Instruction	72,025,155	71,559,698	69,229,506	2,330,192
6012	Instructional resources and media services	931,622	918,242	869,044	49,198
6013	Curriculum and instructional staff development	3,009,895	3,277,525	2,885,955	391,570
6021	Instructional leadership	2,851,861	2,834,790	2,685,579	149,211
6023	School leadership	9,009,449	9,321,132	9,115,831	205,301
6031	Guidance, counseling, and evaluation services	3,335,472	3,432,469	3,399,426	33,043
6032	Social work services	583,294	799,496	611,290	188,206
6033	Health services	1,394,000	1,141,966	1,122,310	19,656
6034	Student transportation services	3,302,200	4,666,614	2,788,283	1,878,331
6036	Extracurricular activities	3,862,168	3,970,231	3,753,769	216,462
6041	General administration	4,557,918	4,960,847	4,667,929	292,918
6051	Plant maintenance and operations	16,867,473	23,137,925	17,410,109	5,727,816
6052	Security and monitoring services	2,214,412	2,228,380	2,094,722	133,658
6053	Data processing services	2,800,260	4,030,541	3,083,693	946,848
6061	Community services	871,881	765,949	663,672	102,277
Debt service:					
6071	Principal on long-term debt	845,000	845,000	845,000	-
6072	Interest on long-term debt	105,913	105,913	106,077	(164)
6073	Bond issuance cost and fees	16,000	16,000	2,900	13,100
Capital outlay:					
6081	Facilities acquisition and construction	-	298,148	42,806	255,342
Intergovernmental:					
6093	Payments to fiscal agent/member districts of shared services arrangements	350,000	398,053	398,053	-
6095	Payments to Juvenile Justice Alternative Education Program	405,000	445,000	410,518	34,482
6097	Payments to tax increment fund	3,592,492	3,745,492	3,590,651	154,841
6099	Other intergovernmental charges	697,650	702,650	701,349	1,301
6030	Total expenditures	133,629,115	143,602,061	130,478,472	13,123,589
1100	Excess (deficiency) of revenues over (under) expenditures	157,563	(9,252,580)	4,806,121	14,058,701
Other Financing Sources (Uses)					
7912	Sale of real and personal property	-	45,000	56,324	11,324
8911	Transfers out	(157,563)	(207,563)	(1,928,616)	(1,721,053)
	Total other financing sources	(157,563)	(162,563)	(1,872,292)	(1,709,729)
1200	Net change in fund balance	-	(9,415,143)	2,933,829	12,348,972
0100	Fund balance, beginning	39,736,618	42,983,412	42,983,412	-
3000	Fund balance, ending	\$ 39,736,618	\$ 33,568,269	\$ 45,917,241	\$ 12,348,972

Waco Independent School District
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
National School Breakfast and Lunch Fund
For the Year Ended August 31, 2016

Data Control Codes		Budgeted Amounts		Actual Amounts	Variances With Final Budget
		Original	Final	(GAAP Basis)	
Revenues					
5700	Local and intermediate sources	\$ 731,092	\$ 731,092	\$ 688,938	\$ (42,154)
5800	State program revenues	203,674	203,674	54,399	(149,275)
5900	Federal program revenues	8,843,784	8,843,784	8,833,968	(9,816)
5020	Total revenues	9,778,550	9,778,550	9,577,305	(201,245)
Expenditures					
Current:					
6035	Food services	9,778,550	9,784,851	9,416,415	368,436
6030	Total expenditures	9,778,550	9,784,851	9,416,415	368,436
1100	Excess of revenues over expenditures	-	(6,301)	160,890	167,191
Other Financing Sources (Uses)					
7912	Sale of real and personal property	-	-	4,811	4,811
	Total other financing sources	-	-	4,811	4,811
1200	Net change in fund balance	-	(6,301)	165,701	172,002
0100	Fund balance, beginning	1,435,024	1,562,752	1,562,752	-
3000	Fund balance, ending	\$ 1,435,024	\$ 1,556,451	\$ 1,728,453	\$ 172,002

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, 2016

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 2016, General Fund appropriations were increased by \$10.0 million. Budgeted appropriations increased for the following: \$5.2 million for the re-appropriation of budgets renovations and major repairs projects which were not completed at August 31, 2016; \$0.7 million for purchase orders from fiscal year 2015 that were honored in fiscal year 2016; \$3.0 million in new renovations and major repair projects; \$0.7 million in E-Rate and other projects funded through additional revenue sources; and another \$0.4 million for various Board of Trustees initiatives.

Functional expenditures did not exceed appropriations in the National School Breakfast and Lunch Fund for the fiscal year ended August 31, 2016.

While expenditures for debt service are appropriated in function 71, Debt Service, the fund financial statements break out expenditures for principal, interest, and issuance costs and fees into separate data control codes. Although the Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual for the General Fund shows expenditures for interest on long-term debt exceeding the budget by \$164 and Schedule J-2, for the Debt Service Fund, shows principal on long-term debt expenditures exceeding appropriated amounts by \$1,870,001, total expenditures for debt services did not exceed the amended budget for function 71 in either fund.

Waco Independent School District
Schedule of the District's Proportionate Share of the Net Pension Liability
Teacher Retirement System
For the Year Ended August 31, 2016

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

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

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

**Waco Independent School District
Schedule of the District Contributions
Teacher Retirement System
For the Year Ended August 31, 2016**

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

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 period covered by the measurement dates ending August 31, 2014 for Fiscal Year 2015 and August 31, 2015 for Fiscal Year 2016.

Note: In accordance with GASB 68, paragraph 138, only two years of data are presented this reporting period. "The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of 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
Teacher Retirement System
For the Year Ended August 31, 2016

Pension Information

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, 2015
Actuarial Cost Method	Ultimate Entry Age Normal
Amortization Method	Level Percentage of Payroll, Open
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

Supplementary Information

**Waco Independent School District
Schedule of Delinquent Taxes Receivable
For the Year Ended August 31, 2016**

Last Ten Years Ended August 31,	1	2	3
	Tax Rates		Assessed
	Maintenance	Debt	Appraised Value
	& Operations	Service	For School
			Tax Purposes
2007 and prior years	Various	Various	Various
2008	\$ 1.04005	\$ 0.12200	\$ 3,520,746,064
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 (school year under audit)	1.17000	0.23000	4,600,827,921
100 Totals			
9000 Taxes paid into Tax Increment Financing Zone under Chapter 311, Tax Code, included in above totals			
Supplemental Tax Increment Financing Zone Payment			
Total Payments into the Tax Increment Financing Zone			

10	20	31	32	40	50
Balance September 1, 2015	Current Year's Total Levy	Total Collections		Entire Year's Adjustments	Balance August 31, 2016
		Maintenance & Operations	Debt Service		
\$ 593,045	\$ -	\$ 14,294	\$ 1,270	\$ (119,999)	\$ 457,482
142,594	-	2,585	303	(4,213)	135,493
172,903	-	3,727	1,143	(4,458)	163,575
197,137	-	6,340	1,989	(4,699)	184,109
194,479	-	11,488	3,587	(5,095)	174,309
228,440	-	20,311	6,269	(5,643)	196,217
286,837	-	36,799	11,152	(12,014)	226,872
425,764	-	107,746	32,614	(18,038)	267,366
992,032	-	358,363	107,937	(109,459)	416,273
-	64,411,591	52,481,748	10,316,906	(714,603)	898,334
<u>\$ 3,233,231</u>	<u>\$ 64,411,591</u>	<u>\$ 53,043,401</u>	<u>\$ 10,483,170</u>	<u>\$ (998,221)</u>	<u>\$ 3,120,030</u>
		\$ 3,162,505	\$ 624,023		
		183,937	-		
		<u>\$ 3,346,442</u>	<u>\$ 624,023</u>		

Waco Independent School District
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
Debt Service Fund
For the Year Ended August 31, 2016

Data Control Codes		Budgeted Amounts		Actual Amounts (GAAP Basis)	Variances With Final Budget
		Original	Final		
Revenues					
5700	Local and intermediate sources	\$ 12,570,230	\$ 10,602,386	\$ 10,633,521	\$ 31,135
5800	State program revenues	2,028,958	1,896,168	2,101,701	205,533
5020	Total revenues	14,599,188	12,498,554	12,735,222	236,668
Expenditures					
Debt service:					
6071	Principal on long-term debt	5,660,000	4,725,000	6,595,001	(1,870,001)
6072	Interest on long-term debt	8,302,369	9,237,369	7,366,732	1,870,637
6073	Bond issuance cost and fees	20,000	517,154	512,054	5,100
Intergovernmental:					
6097	Payments to tax increment fund	760,425	760,425	624,023	136,402
6030	Total expenditures	14,742,794	15,239,948	15,097,810	142,138
1100	Excess (deficiency) of revenues over (under) expenditures	(143,606)	(2,741,394)	(2,362,588)	378,806
Other Financing Sources (Uses)					
7901	Refunding bonds issued	-	47,120,000	47,120,000	-
7915	Transfers in	-	2,100,634	1,873,014	(227,620)
7916	Premium on refunding bonds issued	-	11,068,981	11,068,981	-
8940	Payment to refunded bond escrow agent	-	(57,680,816)	(57,680,816)	-
7080	Total other financing sources	-	2,608,799	2,381,179	(227,620)
1200	Net change in fund balance	(143,606)	(132,595)	18,591	151,186
0100	Fund balance, beginning	4,482,885	4,627,553	4,627,553	-
3000	Fund balance, ending	\$ 4,339,279	\$ 4,494,958	\$ 4,646,144	\$ 151,186

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

The Board of Trustees
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 as of and for the year ended August 31, 2016, and the related notes to the financial statements, which collectively comprise District's basic financial statements, and have issued our report thereon dated January 26, 2017.

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.

Yours truly,

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Conroe, Texas

January 26, 2017



**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
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 (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, 2016. 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 the requirements of laws, regulations, contracts, and grants 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, 2016.

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 as a basis for designing 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 have not been identified.

Purpose of this Report

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.

Yours truly,

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Conroe, Texas

January 26, 2017

WACO INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2016

SECTION I – 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	84.027A and 84.173A Special Education Cluster 84.367A ESEA, Title II, Part A – Teacher and Principal Training and Recruiting 84.377A Texas Title I Priority Schools Cycle 3
8. Dollar Threshold Used to Distinguish Between Type A and Type B Federal Programs	\$776,061
9. Auditee Qualified as a Low-Risk Auditee?	Yes
SECTION II – FINANCIAL STATEMENT FINDINGS	
None reported	
SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS	
None reported	

WACO INDEPENDENT SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FOR THE YEAR ENDED AUGUST 31, 2016

PRIOR YEAR FINDINGS

None reported

Waco Independent School District
Schedule of Expenditures of Federal Awards
For the Year Ended Auguts 31, 2016

(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	U165A130077-16	\$ 1,210,968
ESEA Title V, Part C-Magnet Schools Assistance	84.165A	U165A130077-15	320,899
ESEA Title V, Part C-Magnet Schools Assistance	84.165A	U165A130077-14	63,192
Total Program 84.165A			<u>1,595,059</u>
ESEA Title V, Part D - School Improvement	84.215E	S215E130477-16	367,771
ESEA Title V, Part D - School Improvement	84.215E	S215E130477-15	3,693
ESEA Title V, Part D - School Improvement	84.215E	S215E130477-14	5,092
Total Program 84.215E			<u>376,556</u>
Total Direct Programs			<u>1,971,615</u>
Passed Through State Department of Education:			
ESEA Title I, Part A - Improving Basic Programs	84.010A	15610101161914	120,022
ESEA Title I, Part A - Improving Basic Programs	84.010A	16610101161914	5,740,697
ESEA Title I, Part A - Improving Basic Programs	84.010A	17610101161914	406,631
Title I 1003(A) Priority & Focus School Grant	84.010A	15610112161914048	83,775
Title I 1003(A) Priority & Focus School Grant	84.010A	15610112161914104	6,961
Title I 1003(A) Priority & Focus School Grant	84.010A	15610112161914121	1,787
Title I 1003(A) Priority & Focus School Grant	84.010A	16610112161914000	417,016
Total Program 84.010A			<u>6,776,889</u>
Special Education Cluster (IDEA):			
IDEA - Part B Formula	84.027A	156600011619146600	4,739
IDEA - Part B Formula	84.027A	166600011619146600	3,032,730
IDEA - Part B Formula	84.027A	176600011619146600	208,300
IDEA - Part B Preschool	84.173A	166610011619146610	26,022
SSA-IDEA-Part B-Discretionary (Deaf)	84.027A	166600011619146673	11,430
SSA-IDEA-Part B-Formula Deaf	84.027A	156600011619146601	(955)
SSA-IDEA-Part B-Formula Deaf	84.027A	166600011619146601	20,788
SSA-IDEA-Part B-Preschool Deaf	84.173A	166610011619146611	2,684
Total Special Education Cluster (IDEA)			<u>3,305,738</u>
Career and Technical - Basic Grant	84.048A	16420006161914	207,447
Career and Technical - Basic Grant	84.048A	17420006161914	25,924
Total Program 84.048A			<u>233,371</u>
Title III, Part A - English Language Acquisition and Language Enhancement	84.365A	14671001161914	6,005
Title III, Part A - English Language Acquisition and Language Enhancement	84.365A	15671001161914	259,381
Title III, Part A - English Language Acquisition and Language Enhancement	84.365A	16671001161914	3,745
Title III, Part A - English Language Acquisition and Language Enhancement	84.365A	16671003161914	1,816
Total Program 84.365A			<u>270,947</u>
ESEA Title II, Part A - Teacher and Principal Training and Recruiting	84.367A	15694501161914	1,613
ESEA Title II, Part A - Teacher and Principal Training and Recruiting	84.367A	16694501161914	1,088,502
ESEA Title II, Part A - Teacher and Principal Training and Recruiting	84.367A	17694501161914	19,449
Total Program 84.367A			<u>1,109,564</u>
Title IV, Part B-21st Century Community Learning Centers	84.287C	176950247110030	197

Waco Independent School District
Schedule of Expenditures of Federal Awards
For the Year Ended Auguts 31, 2016

(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	18,939
Texas Title I Priority Schools, Cycle 3	84.377A	146107107110018	1,080,977
Texas Title I Priority Schools, Cycle 3	84.377A	146107107110019	970,589
Total Program 84.377A			2,051,566
Passed through Education Service Center Region 10:			
ESEA Title X, Part C McKinney-Vento Homeless Education	84.196A	16-019	75,667
Total Program 84.196A			75,667
Total Passed through the State Department of Education			13,842,878
Total U.S. Department of Education			15,814,493
<u>U.S. Department of Agriculture</u>			
Direct Program:			
Healthier US School Challenge	10.543	00789	543
Child Nutrition Cluster:			
Passed Through State Department of Education - Cash Assistance:			
School Breakfast Program	10.553	71401501	2,300,750
National School Lunch Program	10.555	71301501	6,416,573
Total Passed Through the State Department of Education			8,717,323
Passed Through State Department of Agriculture - Non Cash Assistance:			
National School Lunch Program	10.555	00789	646,051
Passed Through State Department of Agriculture - Cash Assistance:			
Summer Feeding Program	10.559	00789	572,436
Total Child Nutrition Cluster			9,935,810
Total Passed through the State Department of Agriculture			9,935,810
Total U.S. Department of Agriculture			9,936,353
<u>U.S. Department of Labor</u>			
Passed Through Texas Workforce Commission			
WIA Dislocated Worker Formula Grants	17.278	1316ATP000	5,203
Total U.S. Department of Labor			5,203
<u>U.S. Department of Health and Human Services</u>			
Passed Through Texas Workforce Commission			
Temporary Assistance for Needy Families	93.558	1316ATP000	9,523
Total U.S. Department of Health and Human Services			9,523
<u>U.S. Department of Defense</u>			
Direct Program:			
Reserve Officers' Training Corps	12.000	N/A	101,011
Total Direct Program			101,011
Passed Through McLennan County:			
Payments in Lieu of Real Estate Taxes	12.112	N/A	2,116
Total Passed Through McLennan County			2,116
Total U.S. Department of Defense			103,127
Total Expenditures of Federal Awards			\$ 25,868,699

Waco Independent School District
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended August 31, 2016

A. 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. All federal grant funds were accounted for in the special revenue funds except for indirect costs recoveries, Medicaid, 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	\$ 25,868,699
Medicaid Administrative Claiming Program (MAC)	170,515
Student Health and Related Services Program (SHARS)	2,631,141
Universal E-rate	<u>516,581</u>
Total federal program revenues - Exhibit C-2	<u><u>\$ 29,186,936</u></u>

B. 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
For the Year Ended August 31, 2016**

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.	\$ 2,648,885
SF11	Net pension assets (1920) at fiscal year-end	\$ -
SF12	Net pension liabilities (2540) at fiscal year-end	\$ 35,713,397
SF13	Pension expense (6147) at fiscal year-end, excluding on-behalf pension expense (6144)	\$ 3,265,715