Waco Independent School District

Annual Financial Report

For the Year Ended August 31, 2015

Prepared By

The Waco Independent School District
Business and Financial Services Department

501 Franklin Avenue, Waco, Texas 76712

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Waco Independent School District

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Introductory Section

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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, 2015 at a meeting of the Board of Trustees of such independent school district on the 21st day of January, 2016.

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):

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Financial Statements

HLSK

Hereford, Lynch, Sellars & Kirkham

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Waco Independent School District (District) as of and for the year ended August 31, 2015, 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 auditors' 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, 2015, 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.

Emphasis of Matter

As discussed in Note I.J., in 2015 the District adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27, and Statement No. 71, Pension Transition for Contributions made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. Our opinion is not modified with respect to these matters.

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 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, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 6, 2016 on our consideration of the 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.

Respectfully,

Hereford, Lynch, Sellars & Kirkham, P.C.

HEREFORD, LYNCH, SELLARS & KIRKHAM, P.C.
Certified Public Accountants

Conroe, Texas
January 6, 2016

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Management's Discussion and Analysis

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Waco Independent School District

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended August 31, 2015

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, 2015. 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 compliment each other.

Financial Highlights

The following highlight changes in the District's financial position at August 31, 2015:

- On a government-wide basis, the assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $60,458,847. Of this amount, $30,160,328 is unrestricted and may be used to meet ongoing obligations.
- Total net position for governmental activities increased by $4,317,468 from the restated net position of the prior year.
- The governmental funds reported combined ending fund balances of $51,690,211, an increase of $3,009,815 compared with the prior year. Of the combined fund balances, $36,747,458 or 71.1 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 $42,983,412 of which $36,747,458 was unassigned. The unassigned amount represents 30.8 percent of its annual operating expenditures. The total fund balance increased by $2,545,596 over the prior year with the unassigned fund balance increasing by $4,835, reflecting increases 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 $1,562,752, an increase of $155,338 over the prior year.
- Fund balances restricted for debt service increased by $1,000,868 to $4,627,553.

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.

<table>
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<tr><td>Government-Wide Financial Statements</td><td colspan="3">Fund Financial Statements</td></tr>
<tr><td>Statement of Net Position</td><td>Governmental Funds Balance Sheet</td><td>Proprietary Funds Statement of Net Position</td><td>Fiduciary Funds Statement of Net Position</td></tr>
<tr><td rowspan="2">Statement of Activities</td><td rowspan="2">Statement of Revenues, Expenditures, and Changes in Fund Balances</td><td>Statement of Revenues, Expenses, and Changes in Fund Net Position</td><td rowspan="2">Statement of Changes in Net Position</td></tr>
<tr><td>Statement of Cash Flows</td></tr>
<tr><td colspan="4">Notes to the Financial Statements</td></tr>
<tr><td colspan="4">Required Supplementary Information and Supplemental Schedules Required by the TEA</td></tr>
</table>

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

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 S*tatement 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

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 "Other Governmental 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, activities of student groups, and regional U.I.L. funds.

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.

Government-wide Financial Analysis

The District's overall financial position and operations for the fiscal years ended August 31, 2015 and 2014 are summarized as follows, based on the information included in the government-wide financial statements.

	Governmental Activities		
	2015	(As restated*) 2014	% Change
Current and other assets	$ 66,486,776	$ 64,689,876	2.8%
Capital assets, net of accumulated depreciation	205,205,337	212,691,187	-3.5%
Total assets	271,692,113	277,381,063	-2.1%
Deferred outflows of resources	14,820,267	1,042,129	1322.1%
Total deferred outflows of resources	14,820,267	1,042,129	1322.1%
Current liabilities	18,657,162	20,846,296	-10.5%
Long-term liabilities	203,055,405	201,435,517	0.8%
Total liabilities	221,712,567	222,281,813	-0.3%
Deferred inflows of resources	4,340,966	-	
Total deferred inflows of resources	4,340,966	-	
Net position:			
Net investment in capital assets	28,878,748	27,768,470	4.0%
Restricted	1,419,771	1,256,341	13.0%
Unrestricted	30,160,328	27,116,568	11.2%
Total net position	$ 60,458,847	$ 56,141,379	7.7%

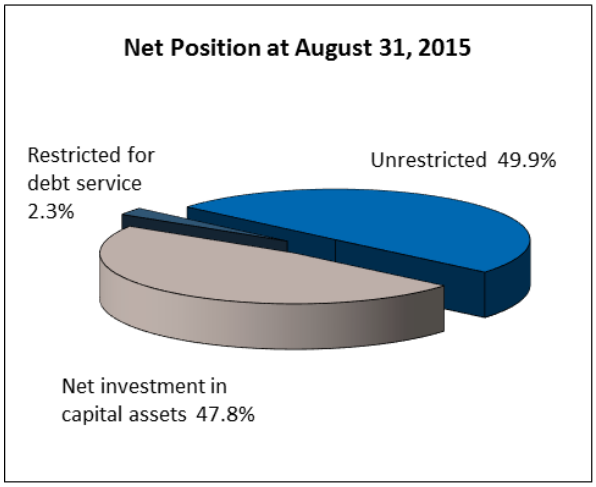
**2014 has been restated due to prior period adjustments, see Note III.N.*

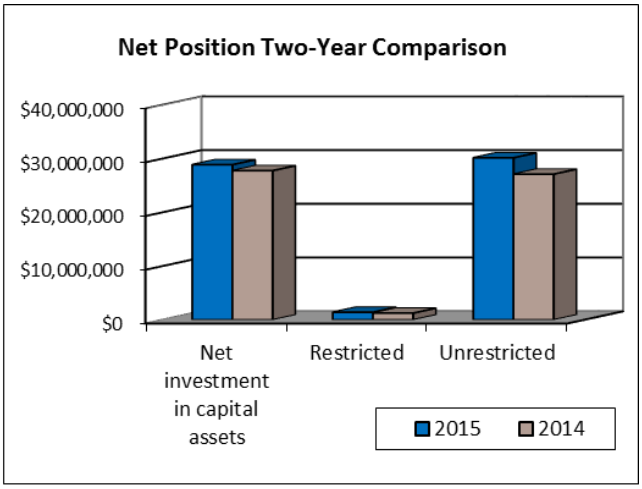
The District's total assets and deferred outflows of resources exceeded its total liabilities and deferred inflows of resources by $60,458,847 as of August 31, 2015, an increase of $4,317,468 from August 31, 2014. However, beginning net position has been restated for prior period adjustments. The net effect of these adjustments was to reduce beginning net position by $18,512,861. The decrease is due, primarily, to the implementation of GASB 68, *Accounting and Financial Reporting for Pensions,* which required the District to report its proportionate share of the Teacher Retirement System of Texas ("TRS") net pension liability.

A significant portion of the District's net position reflects its investment in capital assets, e.g., land, buildings, and equipment, less any outstanding related debt used to acquire the assets. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since capital assets cannot be used to liquidate the liabilities. The District's net investment in capital assets increased $1,110,278 over the prior year due, primarily, to the extinguishment of long-term debt. Prior period adjustments had the net effect of reducing the beginning net investment in capital assets by $268,418.

Accumulated accretion of interest on capital appreciation bonds and accrued interest payable on outstanding general obligation bonds exceed the fund balance restricted for debt service. As a result, net position is not restricted for the retirement of long-term debt. A prior period adjustment to correct the computation of accumulated accretion reduced the beginning net position, restricted for the retirement of long-term debt, by $2,166,362 and, as a result, was netted against the beginning unrestricted net position.

The balance of unrestricted net position, $30,160,328, 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, 49.9 percent of the net position was unrestricted resources available to fund the ongoing operations of the District. Unrestricted net position in the government-wide statements includes amounts shown as nonspendable, committed, or assigned in the fund statements.





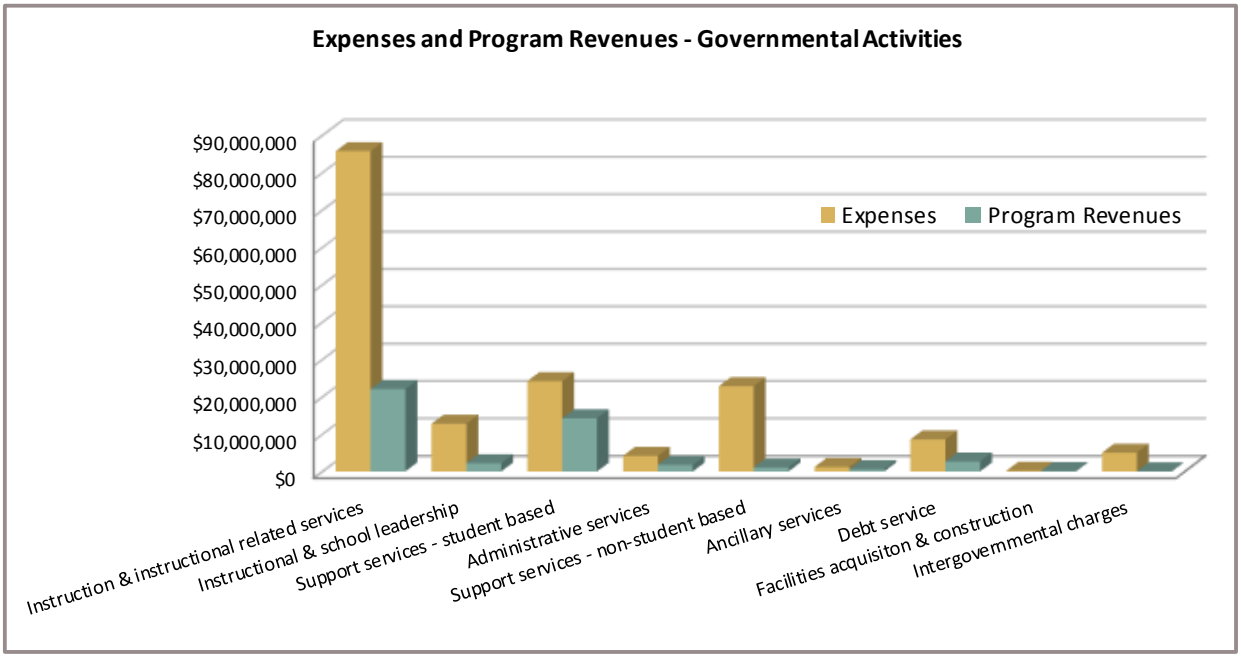
Changes in Net Position

The following table provides a summary comparing the District's operations for the years ended August 31, 2015 and 2014. For the year ended August 31, 2015, governmental activities increased net position by $4,317,468.

	Governmental Activities		
		(As restated*)	
	2015	2014	% Change
Revenues:			
Program Revenues:			
Charges for services	$ 4,126,548	$ 3,671,856	12.38%
Operating grants and contributions	40,689,915	35,356,370	15.09%
General Revenues:			
Property taxes	58,804,426	55,718,741	5.54%
Grants and contributions not restricted	65,525,694	62,882,914	4.20%
Investment earnings	88,831	119,105	-25.42%
Miscellaneous	818,949	702,540	16.57%
Total revenues	170,054,363	158,451,526	7.32%
Expenses:			
Instruction	77,681,640	69,789,327	11.31%
Instructional resources and media services	1,124,801	1,135,530	-0.94%
Curriculum and instructional staff development	6,947,353	6,173,202	12.54%
Instructional leadership	3,677,116	3,318,806	10.80%
School leadership	9,115,358	8,738,412	4.31%
Guidance, counseling, and evaluation services	4,648,929	4,219,053	10.19%
Social work services	1,031,823	902,610	14.32%
Health services	1,102,805	1,033,294	6.73%
Student transportation services	2,693,602	3,138,533	-14.18%
Food services	10,019,785	10,146,039	-1.24%
Extracurricular activities	4,653,098	4,324,813	7.59%
General administration	4,179,447	4,409,243	-5.21%
Plant maintenance and operations	17,352,111	14,670,240	18.28%
Security and monitoring services	2,070,750	1,790,388	15.66%
Data processing services	3,411,040	2,692,333	26.69%
Community services	1,215,064	2,187,539	-44.46%
Debt service - Interest on long-term debt	7,503,739	9,251,908	-18.90%
Debt service - Issuance costs and fees	1,075,983	5,050	21206.59%
Facilities acquisition, improvements, and maintenance	160,135	1,996,941	-91.98%
Payments to fiscal agents/member districts of shared services arrangements	409,664	242,077	69.23%
Payments related to Juvenile Justice Alternative Education program	360,740	422,845	-14.69%
Payments to tax increment reinvestment zones	3,534,625	3,061,499	15.45%
Other intergovernmental charges	727,905	616,522	18.07%
Total expenses	164,697,513	154,266,204	6.76%
Increase in net position before transfers, and special items	5,356,850	4,185,322	27.99%
Transfers	15,000	-	
Special item -- gain (loss) on sale of capital assets	(1,054,382)	2,291,077	-146.02%
Change in net position	4,317,468	6,476,399	-33.34%
Net position, September 1*	56,141,379	49,664,980	13.04%
Net position, August 31	$ 60,458,847	$ 56,141,379	7.69%

* 2014 has been restated due to prior period adjustments, see Note III.N.

The cost of all governmental activities totaled $164,697,513, increasing $10,431,309 from the prior year. Although program revenues of $4,126,548, in the form of charges for services, and $40,689,915, in grants and contributions, increased a total of $5,788,237, 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 $65,525,694, 38.5 percent, of the $170,054,363 total revenue. Funding from State formula grants increased $2,642,780 from the prior year. Three major factors impact State funding: property valuations and collections, representing local effort, and average daily attendance. While property values increased 5.8 percent for the 2014 tax year, the average daily attendance for the 2014-15 school year decreased by 90.7 students from 2013-14.

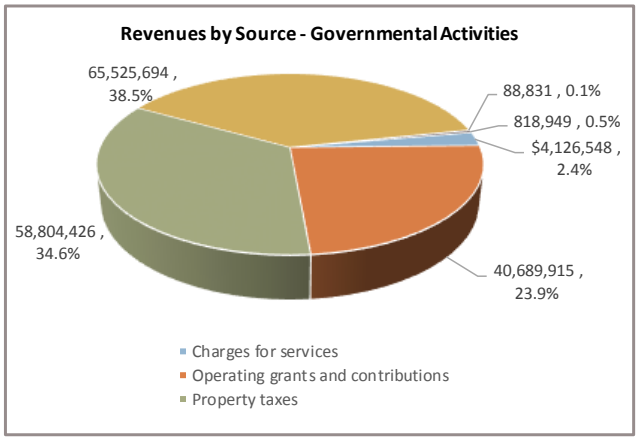
Local property tax revenue contributed an additional $58,804,426 or 34.6 percent of the total revenue. Property taxes for general purposes increased $3,085,685 due to the increased values. Property taxes levied for debt service increased $661,482 due to the same increase in values, but there was a slight decrease in the tax rate from $0.31480 per $100 of valuation to $0.31324 per $100 of valuation. This decrease was consistent with a decrease in debt service for issued bonds. The rate for maintenance and operations remained the same at $1.04000 per $100 of valuation. This is the maximum rate the District may levy without a tax ratification election.

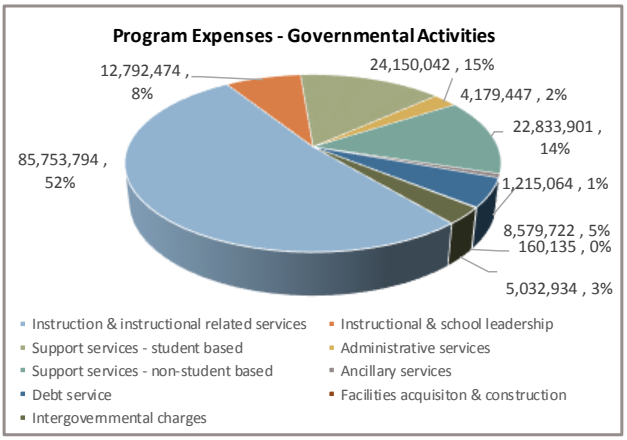
Revenue from operating grants and contributions contributed $40,689,915 or 23.9 percent of total revenue. These revenues increased $5,333,545 from 2013-14 and reflect the impact competitively awarded grants for school improvement awarded through the TEA for J.H. Hines Elementary School and Indian Spring 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.

Revenues identified as charges for services increased by $454,692 from 2013-14. The increase is due, primarily, to increased tuition revenue derived from the expansion of the Greater Waco Advanced Manufacturing Academy and increased enrollment and tuition for the Regional Day School for the Deaf.

Expenses for governmental activities increased by $10,431,309 from the prior year. Expenditures for direct classroom instruction increased $7,892,313 over 2013-14. In adopting the budget for 2014-15, the Board of Trustees approved a starting teacher salary of $43,000 and an average pay increase of 2.4 percent for employees paid on the teacher schedule with all other employee groups receiving an increase of 2.1 percent of the midpoint. Additionally, the Board approved increases in extra-duty stipends totaling $92,800. However, most of the increase was due to the implementation of the competitively awarded grants and the expansion of the advanced academies.

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, 2015, the District's governmental funds reported combined ending fund balances of $51,690,211, an increase of $3,009,815 from the prior year. 71.1 percent of the combined ending fund balances constitutes unassigned fund balance in the general fund.

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	$ 382,110
Restricted fund balance:	
Federal or state funds grant restriction	1,419,771
Capital acquisition and contractual obligation	2,025,445
Retirement of long-term debt	4,627,553
Committed fund balance:	
Construction and other major improvements	3,821,200
Capital expenditures for equipment	1,057,418
Assigned fund balance:	
Construction and other major improvements	165,502
Capital expenditures for equipment	661,635
Other assigned fund balance	782,119

The *general fund* is the primary operating fund and supports most of the District's educational program support operations. As of August 31, 2015, the fund balance for the general fund totaled $42,983,412, increasing $2,545,595 over the year ended August 31, 2014. The unassigned portion of the fund balance increased by $4,835 to $36,747,458, while committed and assigned funds increased by $2,515,725. The increase in committed and assigned funds is attributable to uncompleted projects and an increase in outstanding purchase orders, primarily from a purchase order for school buses which were not delivered by August 31, which were reappropriated in the subsequent fiscal year. Nonspendable fund balance in inventories totaled $239,129.

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 30.8 percent of total fund expenditures, while the total fund balance remained at 36.0 percent.

Revenues for the National School Breakfast and Lunch Program exceeded expenditures by $140,576. However, the General Fund recognized $953,402 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. $158,209 of the indirect cost recovery was used to complete kitchen renovations. The fund balance at year end totaled $1,562,752 with $142,981 invested in nonspendable inventories on hand.

Reserves in the debt service fund increased by $1,000,868. The increase was due to higher than anticipated revenues. Local revenues, primarily property tax collections, exceeded estimated amounts by $668,090 and state revenue facilities assistance exceeded estimates by $216,380. The ending debt service reserve represents 28.0 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 $715,105 for renovations during the fiscal year. The fund balance of the District's capital projects fund at year-end total $2,025,445. 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, $491,049, for the other governmental funds represents the balance assigned for campus activity funds.

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 $692,746. Fees paid to the third party administrator totaled $91,289. Workers' compensation claims invoiced totaled $529,774, an increase of $212,182 over the prior year. However, the District's estimated allocated loss adjustment expense of $492,883, which was accrued at August 31, 2015, decreased by $249,087. Unemployment claims paid totaled $54,923, a decrease of $15,008 from the prior year. Due to the change in actuarial estimate for future costs, the ending net position for the fund increased $265,847 to $793,299 at August 31, 2015.

General Fund Budgetary Highlights

On August 28, 2014, 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 a balanced budget with estimated revenues covering original appropriations in each of the three funds. Original appropriations in the official budget are as follows:

General fund	$ 119,249,496
National School Breakfast and Lunch Program fund	9,226,617
Debt Service fund	15,587,486

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. Additionally, 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:
  - $52,049 increasing TRS on-behalf revenue to offset expenditures, and
  - $81,250 in bus sales to support bus replacements.
- Additionally, unassigned fund balance was used to support expenditure appropriations for the following:
  - $97,590 for incentive funds, component 1 of the District's performance incentive program,
  - $176,562 additional staffing needs at Waco High School, Lake Air Montessori School, Human Resources, WISD Police, and Homeless Support program,
  - $243,587 start-up costs for the Greater Waco Advanced Health Care Academy,
  - $509,942 for purchase orders not received at August 31, 2014, and reappropriated in 2014-15,
  - $2,971,157 for renovations and major repair projects not completed at August 31, 2014, and reappropriated in 2014-15, and
  - $5,800,561 for new renovations, major repairs, security, and technology infrastructure projects.

Other sources, other uses, and expenditure appropriations for bond issuance costs were amended in the debt service fund by a total of $2,139,460 to record the issuance and costs of refunding general obligation bonds.

Capital Assets

The District's investment in capital assets for its governmental activities as of August 31, 2015, totaled $205,205,337, net of accumulated depreciation of $114,319,821. Capital assets, net of accumulated depreciation decreased $7,485,850 from the August 31, 2014 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.

Capital Asset Summary

	Governmental Activities	
	August 31, 2015	August 31, 2014
Land	$ 9,287,690	$ 9,513,636
Buildings and improvements	185,464,408	190,164,523
Furniture, equipment, and vehicles	9,607,918	11,598,527
Construction in progress	845,321	1,414,502
Total capital assets, net of accumulated depreciation	$ 205,205,337	$ 212,691,188

Major capital asset acquisitions for the current fiscal year included:

- Completion of major renovations at the Greater Waco Advanced Manufacturing Academy of $1,901,014 including a new building addition to house the welding program; and
- $1,316,386 in capitalized vehicles and equipment.

These acquisitions were offset by depreciation and the sale of surplus property, including the child care facility, five buses 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, 2015, the District had total long-term liabilities totaling $209,560,405. Of this amount, $129,640,000 comprises debt backed by the full faith of the State of Texas Permanent School Fund. During the 2014-15 fiscal year, the District retired $8,305,002 in bonded debt through scheduled debt service payments. Bond payments due within one year total $6,505,000.

During the 2014-15 fiscal year, the District issued $106,455,000 in unlimited tax refunding bonds to refund a portion of the 2008 Series bonds and reduce the debt burden on local taxpayers. As a result of the two issues, the District recognized a total present-value economic gain estimated at $11,544,815.

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

Long-term Liabilities Summary

	Governmental Activities	
	August 31, 2015	(As restated) August 31, 2014
General obligation bonds	$ 174,185,000	$ 181,680,000
Maintenance tax notes	570,000	1,120,000
Revenue bonds	1,545,000	1,805,000
Premiums	12,882,912	4,092,029
Accumulated accretion	5,693,948	3,500,406
Total bonds payable, net	194,876,860	192,197,435
Claims and judgments	492,883	741,970
Net pension liability	14,190,662	17,424,968
Total long-term liabilities	$ 209,560,405	$ 210,364,373

Beginning amounts shown for premiums and accumulated accretion have been restated for the impact of prior period adjustments for errors in calculations.

During the fiscal year ended August 31, 2015, the District implemented the Government Accounting Standards Board (GASB) Statement No. 68 relating to the recognition of the District's share of the net pension liability relating to the State of Texas Teachers Retirement System cost-sharing pension plan. The beginning balance of this long-term liability has been presented in this schedule for comparison purposes.

Additional information about the District's long-term debt is presented in Note III.E., Long-Term Liabilities, in the accompanying notes to the financial statements.

Economic Factors and Next Year's Budgets and Tax Rates

At the close of the 84th Legislative Session in the summer of 2015, the District was projected to gain $4.1 million for the 2015-16 school year with an additional $0.3 million gain for 2016-17. Funding elements included an increase in the basic allotment and the "Austin Yield" as well as some relief for "fractionally" funded districts.

While growth in the Waco MSA is comparable to the performance of intermediate-sized U.S. metro areas and, based on Waco's location on I-35, one of the strongest growth corridors in the country, conservative projections suggest the Central Texas area will include over 350,000 persons by 2030, little, if any, growth in enrollment is anticipated for Waco I.S.D. The District's enrollment has slowly trended downward over the last 17 years, culminating in a 0.7 percent loss in enrollment in 2014-15. State revenues were based on a flat enrollment of 14,939. Early projections for the current year show enrollment up about six students.

Significant increases in 2014 property values drove some of the District's revenue gains for 2015-16. Certified values increased 4.3 percent over 2013. With a state referendum to increase the homestead exemption from $15,000 to $25,000 on the November ballot, the District's Board of Trustees approved a maintenance and operations tax rate of $1.17 while reducing the interest and sinking tax rate for debt service by $0.08. Voters have since ratified the tax rate and approved the increased homestead exemption, generating an additional $8.1 million in funding for District programs. The additional funding from the tax rate increase will be dedicated to literacy, discipline, mental health, and dual credit programs as well as continuing support of an eight-period day at secondary campuses.

The Board also approved a beginning teacher salary of $45,000 with an average increase of just over 2% for teachers, administrators, and paraprofessional employees. As part of the compensation proposal, an additional $673,000 was appropriated to provide equity adjustments for auxiliary staff and reclassify instructional aides.

Although the annual mean income for Waco is considerably higher than the median income, persons in lower income households often work in occupations that offer lower wages, less job stability, and smaller gains from work experience and training. In the City of Waco, nearly 30 percent of its residents are living below the poverty level. The District's leadership works closely with local organizations to enhance the community environment. The District, in conjunction with the City of Waco and numerous local agencies, have formed a coalition known as "Prosper Waco" with its mission to "build an environment in which all members of our Waco community are able to measurably improve their education, health, and financial security". Success of children and their families can only have a positive impact on the success of the District. The Prosper Waco initiative is developing ideas and strategies that will enable younger workers to develop skills needed to gain entry and sustain employment in higher paying occupations identified by local employers that face a shortage of skill-matching applicants. The creation of the two advanced career and technology academies focusing on manufacturing and health care training will help further these goals.

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. These factors were taken into account when adopting the budget. The Waco Independent School District's adopted budget for 2015-2016, including the general, National School Breakfast and Lunch Program, and debt service funds, totaled $149,614,624.

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

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Waco Independent School District
Statement of Net Position
August 31, 2015

Data Control Codes		Governmental Activities
	Assets	
1110	Cash and cash equivalents	$ 60,539,028
1220	Property taxes receivable	3,233,230
1230	Allowance for uncollectible taxes	(1,531,450)
1240	Due from other governments	3,734,171
1250	Accrued interest receivable	12,356
1290	Other receivables	85,741
1310	Inventories	413,700
	Capital assets not subject to depreciation:	
1510	Land	9,287,690
	Capital assets, net of accumulated depreciation:	
1520	Buildings and improvements	185,464,408
1530	Furniture, equipment, and vehicles	9,607,918
1580	Construction in progress	845,321
1000	Total assets	271,692,113
	Deferred Outflows of Resources	
1701	Deferred charge on refunding	10,830,879
1705	Deferred outflow of pension resources	3,989,388
1700	Total deferred outflows of resources	14,820,267
	Liabilities	
2110	Accounts payable	6,074,777
2120	Other liabilities	76,992
2140	Accrued interest payable	343,560
2150	Payroll deductions and withholdings	705,401
2160	Accrued wages payable	2,322,603
2170	Due to fiduciary funds	67,686
2180	Due to other governments	2,178,893
2300	Unearned revenue	382,250
	Noncurrent liabilities:	
2501	Due within one year	6,505,000
2502	Due after one year	188,371,860
2540	Net pension liability (district's share)	14,190,662
2590	Claims and judgments	492,883
2000	Total liabilities	221,712,567
	Deferred Inflows of Resources	
2600	Deferred inflows of pension resources	4,340,966
	Total deferred inflows of resources	4,340,966
	Net Position	
3200	Net investment in capital assets	28,878,748
	Restricted for:	
3820	Federal and state programs	1,419,771
3900	Unrestricted	30,160,328
3000	Total net position	$ 60,458,847

Waco Independent School District
Statement of Activities
For the Year Ended August 31, 2015

Data Control Codes		1	Program Revenues 3	Program Revenues 4	Net (Expense) Revenue and Changes in Net Position 6
		Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities
	Primary Government:				
	Governmental activities:				
11	Instruction	$ 77,681,640	$ 1,448,081	$ 15,798,304	$ (60,435,255)
12	Instructional resource and media services	1,124,801	44,175	42,494	(1,038,132)
13	Curriculum and instructional staff development	6,947,353	5,400	4,705,911	(2,236,042)
21	Instructional leadership	3,677,116	78,829	1,186,297	(2,411,990)
23	School leadership	9,115,358	338,467	613,257	(8,163,634)
31	Guidance, counseling, and evaluation services	4,648,929	64,786	1,637,025	(2,947,118)
32	Social work services	1,031,823	1,167	658,372	(372,284)
33	Health services	1,102,805	-	425,184	(677,621)
34	Student transportation services	2,693,602	-	604,943	(2,088,659)
35	Food services	10,019,785	698,505	9,105,309	(215,971)
36	Extracurricular activities	4,653,098	878,815	183,606	(3,590,677)
41	General administration	4,179,447	140,965	1,624,946	(2,413,536)
51	Plant maintenance and operations	17,352,111	243,895	510,474	(16,597,742)
52	Security and monitoring services	2,070,750	23,755	101,013	(1,945,982)
53	Data processing services	3,411,040	-	178,767	(3,232,273)
61	Community services	1,215,064	112,199	509,977	(592,888)
72	Interest on long-term debt	7,503,739	-	2,664,821	(4,838,918)
73	Issuance cost and fees	1,075,983	-	-	(1,075,983)
81	Facilities acquisition, improvements, and maintenance	160,135	-	135,924	(24,211)
93	Payments to fiscal agents/member districts of shared services arrangements	409,664	47,509	3,291	(358,864)
95	Payments related to Juvenile Justice Alternative Education Program	360,740	-	-	(360,740)
97	Payments to tax increment zones	3,534,625	-	-	(3,534,625)
99	Other intergovernmental charges	727,905	-	-	(727,905)
TP	Total primary government	$ 164,697,513	$ 4,126,548	$ 40,689,915	(119,881,050)

Data Control Codes		
	General revenues:	
	Taxes:	
MT	Property taxes, levied for general purposes	45,214,877
DT	Property taxes, levied for debt service	13,589,549
GC	Grants and contributions not restricted	65,525,694
IE	Investment earnings	88,831
MI	Miscellaneous	818,949
SI	Special Item - loss on sale of capital assets	(1,054,382)
FR	Transfers	15,000
TR	Total general revenues, special items, and transfers	124,198,518
CN	Change in net position	4,317,468
NB	Net position, beginning	74,654,240
PA	Prior period adjustments	(18,512,861)
	Net position, beginning - as restated	56,141,379
NE	Net position, ending	$ 60,458,847

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

Waco Independent School District
Balance Sheet
Governmental Funds
August 31, 2015

Data Control Codes		10 General Fund	24 Natl School Breakfast & Lunch Fund	50 Debt Service Fund	60 Capital Projects Funds	Other Governmental Funds	Total Governmental Funds
	Assets						
1110	Cash and cash equivalents	$ 53,343,468	$ 1,050,134	$ 1,639,439	$ 2,934,008	$ 1,571,979	$ 60,539,028
1220	Property taxes - delinquent	2,587,001	-	646,229	-	-	3,233,230
1230	Allowance for uncollectible taxes (credit)	(1,209,741)	-	(321,709)	-	-	(1,531,450)
1240	Receivables from other governments	106,370	281,174	-	-	3,346,627	3,734,171
1250	Accrued interest receivable	12,356	-	-	-	-	12,356
1260	Due from other funds	3,950,477	224,291	3,051,451	166,649	1,060,293	8,453,161
1290	Other receivables	10,383	-	-	-	75,358	85,741
1310	Inventories	239,129	174,571	-	-	-	413,700
	Total assets	$ 59,039,443	$ 1,730,170	$ 5,015,410	$ 3,100,657	$ 6,054,257	$ 74,939,937
	Liabilities						
2110	Accounts payable	$ 3,864,965	$ 113,866	$ -	$ 204,112	$ 1,861,414	$ 6,044,357
2120	Other liabilities	41,003	-	-	7,129	28,860	76,992
2150	Payroll deductions and withholdings payable	705,401	-	-	-	-	705,401
2160	Accrued wages payable	2,072,669	15,661	-	-	234,273	2,322,603
2170	Due to other funds	5,886,971	-	-	863,971	3,086,508	9,837,450
2180	Due to other governments	2,107,762	-	63,337	-	7,794	2,178,893
2300	Unearned revenues	-	37,891	-	-	344,359	382,250
	Total liabilities	14,678,771	167,418	63,337	1,075,212	5,563,208	21,547,946
	Deferred Inflows of Resources						
2601	Unavailable revenues - property taxes	1,377,260	-	324,520			1,701,780
2600	Total deferred inflows of resources	1,377,260	-	324,520	-	-	1,701,780
	Fund Balances						
	Nonspendable fund balance:						
3410	Investments in inventory	239,129	142,981	-	-	-	382,110
	Restricted fund balance:						
3450	Federal or state funds grant restriction	-	1,419,771	-	-	-	1,419,771
3470	Capital acquisition and contractual obligation	-	-	-	2,025,445	-	2,025,445
3480	Retirement of long-term debt	-	-	4,627,553	-	-	4,627,553
	Committed fund balance:						
3510	Construction and other major improvements	3,821,200	-	-	-	-	3,821,200
3530	Capital expenditures for equipment	1,057,418	-	-	-	-	1,057,418
	Assigned fund balance:						
3550	Construction and other major improvements	165,502	-	-	-	-	165,502
3570	Capital expenditures for equipment	661,635	-	-	-	-	661,635
3590	Other assigned fund balance	291,070	-	-	-	491,049	782,119
3600	Unassigned fund balance	36,747,458	-	-	-	-	36,747,458
	Total fund balances	42,983,412	1,562,752	4,627,553	2,025,445	491,049	51,690,211
	Total liabilities, deferred inflows, and fund balances	$ 59,039,443	$ 1,730,170	$ 5,015,410	$ 3,100,657	$ 6,054,257	$ 74,939,937

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

Waco Independent School District
Reconciliation of Fund Balances of Governmental Funds
to Net Position of Governmental Activities
August 31, 2015

Fund balances - total governmental funds (Exhibit C-1)		$ 51,690,211
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	$ 319,525,159	
Accumulated depreciation of governmental capital assets	(114,319,820)	205,205,339
Property taxes receivable, that will be collected subsequent to year-end, but are not available soon enough to pay expenditures and, therefore, are deferred in the funds.		1,701,780
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	$ (176,300,000)	
Premium on bonds payable	(12,882,913)	
Accreted interest on capital appreciation bonds	(5,693,948)	
Accrued interest on the bonds	(343,560)	
Net pension liability	(14,190,662)	(209,411,083)
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		793,299
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.		10,830,879
Deferred outflows for pension are included in the statement of net position and are not reported in the funds because they are not current financial resources available to pay for current expenditures.		3,989,388
Deferred inflows for pension are included in the statement of net position and are not reported in the financials because they are not current financial resources available to pay for current expenditures.		(4,340,966)
Net position of governmental activities (Exhibit A-1)		$ 60,458,847

Waco Independent School District
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended August 31, 2015

Data Control Codes		10 General Fund	24 Natl School Breakfast & Lunch Fund	50 Debt Service Fund	60 Capital Projects Funds	Other Governmental Funds	98 Total Governmental Funds
	Revenues						
5700	Local and intermediate sources	$ 46,952,077	$ 698,819	$ 13,807,135	$ 8,367	$ 2,953,982	$ 64,420,380
5800	State program revenues	70,602,927	56,767	2,664,821	-	1,556,962	74,881,477
5900	Federal program revenues	3,994,639	8,450,463	-	-	18,433,900	30,879,002
5020	Total revenues	121,549,643	9,206,049	16,471,956	8,367	22,944,844	170,180,859
	Expenditures						
	Current:						
6011	Instruction	60,736,301	-	-	-	12,808,007	73,544,308
6012	Instructional resources and media services	838,095	-	-	-	33,208	871,303
6013	Curriculum and instructional staff development	2,518,624	-	-	-	4,571,863	7,090,487
6021	Instructional leadership	2,568,788	-	-	-	1,075,308	3,644,096
6023	School leadership	8,799,712	-	-	-	290,508	9,090,220
6031	Guidance, counseling, and evaluation services	3,295,980	-	-	-	1,414,950	4,710,930
6032	Social work services	419,302	-	-	-	636,249	1,055,551
6033	Health services	1,068,353	-	-	-	13,619	1,081,972
6034	Student transportation services	2,054,638	-	-	-	-	2,054,638
6035	Food services	31,090	9,065,473	-	-	597,765	9,694,328
6036	Extracurricular activities	3,557,030	-	-	-	480,362	4,037,392
6041	General administration	4,020,328	-	-	-	38,340	4,058,668
6051	Plant maintenance and operations	16,810,885	-	-	582,716	151,330	17,544,931
6052	Security and monitoring services	2,038,704	-	-	-	26,115	2,064,819
6053	Data processing services	3,194,738	-	-	-	-	3,194,738
6061	Community services	712,002	-	-	-	493,693	1,205,695
	Debt service:						
6071	Principal	810,000	-	7,495,002	-	-	8,305,002
6072	Interest	148,145	-	7,279,095	-	-	7,427,240
6073	Bond issuance cost and fees	4,900	-	1,071,083	-	-	1,075,983
	Capital outlay:						
6081	Facilities acquisition, improvements, and maintenance	1,424,640	-	-	132,389	255,968	1,812,997
	Intergovernmental:						
6093	Payments to fiscal agent/member districts of shared services arrangements	355,012	-	-	-	54,652	409,664
6095	Payments related to Juvenile Justice Alternative Education Program	360,740	-	-	-	-	360,740
6097	Payments to tax increment zone	2,828,442	-	706,183	-	-	3,534,625
6099	Other intergovernmental charges	727,905	-	-	-	-	727,905
6030	Total expenditures	119,324,354	9,065,473	16,551,363	715,105	22,941,937	168,598,232
1100	Excess (deficiency) of revenues over (under) expenditures	2,225,289	140,576	(79,407)	(706,738)	2,907	1,582,627
	Other Financing Sources (Uses)						
7901	Refunding bonds issued	-	-	106,455,000	-	-	106,455,000
7912	Sale of real and personal property	317,152	14,762	-	-	-	331,914
7915	Transfers in	45,000	-	-	-	41,845	86,845
7916	Premium on refunding bonds issued	-	-	12,852,104	-	-	12,852,104
8911	Transfers out	(41,845)	-	-	-	(30,000)	(71,845)
8940	Payment to refunded bond escrow agent	-	-	(118,226,829)	-	-	(118,226,829)
	Total other financing sources (uses)	320,307	14,762	1,080,275	-	11,845	1,427,189
1200	Net change in fund balances	2,545,596	155,338	1,000,868	(706,738)	14,752	3,009,816
0100	Fund balances, beginning	40,437,816	1,407,414	3,626,685	2,732,183	476,297	48,680,395
3000	Fund balances, ending	$ 42,983,412	$ 1,562,752	$ 4,627,553	$ 2,025,445	$ 491,049	$ 51,690,211

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, 2015

Total net changes in fund balances - Governmental Funds (Exhibit C-2)		$ 3,009,816
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	$ 2,968,047	
Depreciation expense	(9,097,518)	(6,129,471)
The net effect of miscellaneous transactions involving capital assets (transfers, adjustments, and dispositons) is a decrease to net position.		(1,356,378)
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.		(156,433)
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	$ (106,455,000)	
Premium	(12,852,104)	(119,307,104)
Payment to escrow agent, from refunding proceeds, to pay refunded bonds		118,226,829
Repayment of bond principal is an expenditure in the governmental funds. The repayment reduces long-term liabilities in the statement of net position.		8,305,000
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The net decrease in interst reported in the statement of activities consist of the following:		
Accrued interest on current interest bonds payable decreased	$ 38,901	
Interest accreted on capital appreciation bonds	(316,144)	
Accreted interest paid	115,000	
Amortization of bond premiums	615,183	
Amortization of defeasance costs	(529,418)	(76,478)
The net change in net pension liability, deferred outflows, and deferred inflows is reported in the statement of activities but does not require the use of current financial resources and, therefore, is not reported as expenditures in the governmental funds. The net change consists of the following:		
Deferred outflows increase	$ 2,642,500	
Deferred inflows increase	(4,340,966)	
Net pension liability decrease	3,234,306	1,535,840
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		265,847
Changes in net position of governmental activities (Exhibit B-1)		$ 4,317,468

Waco Independent School District
Statement of Net Position
Proprietary Fund
August 31, 2015

	Governmental Activities
	Internal Service Fund
Assets	
Current assets:	
Due from other funds	$ 1,316,602
Total assets	1,316,602
Liabilities	
Current liabilities:	
Accounts payable	30,420
Total current liabilities	30,420
Non current liabilities:	
Claims and judgements	492,883
Total non-current liabilities	492,883
Total liabilities	523,303
Net Position	
Unrestricted net position	793,299
Total net position	$ 793,299

Waco Independent School District

Statement of Revenues, Expenses, and Changes in Net Position

Proprietary Fund

Year Ended August 31, 2015

	Governmental Activities
	Internal Service Fund
Operating revenues:	
Assessments to other funds	$ 692,746
Total operating revenues	692,746
Operating expenses:	
Professional and contracted services	91,289
Claims expense	335,610
Total operating expenses	426,899
Change in Net Position	265,847
Net position, beginning	527,452
Net position, ending	$ 793,299

Waco Independent School District
Statement of Cash Flows
Proprietary Fund
For the Year Ended August 31, 2015

	Governmental Activities
	Internal Service Fund
Cash Flows from Operating Activities	
Cash received from assessments to other funds	$ 666,673
Cash payments for insurance claims	(575,384)
Cash payments for other operating expenses	(91,289)
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	$ 265,847
Effects of increases and decreases in current assets and liabilities:	
Increase in due from other funds	(26,073)
Increase in accounts payable	9,313
Decrease in claims liability	(249,087)
Net cash provided by operating activities	$ -

Exhibit E-1

Waco Independent School District
Statement of Net Position
Fiduciary Funds
August 31, 2015

	Private Purpose Trust Fund	Agency Fund
Assets		
Cash and cash equivalents	$ 9,369	$ -
Accrued interest	211	-
Due from other funds	5,278	62,408
Total assets	14,858	$ 62,408
Liabilities		
Accounts payable	-	$ 27,404
Due to student groups	-	35,004
Total liabilities	-	$ 62,408
Net Position		
Restricted for scholarships	14,858	
Total net position	$ 14,858	

Waco Independent School District
Statement of Changes in Net Position
Fiduciary Funds
For the Year Ended August 31, 2015

	Private Purpose Trust Fund
Deductions	
Transfers out	$ 15,000
Total deductions	15,000
Change in net position	(15,000)
Net position, beginning	29,858
Net position, ending	$ 14,858

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I. Summary of Significant Accounting Policies

A. Description of 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.

B. 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.

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.

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

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.

D. 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, equity, revenues, and expenditures or expenses.

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.

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.

E. 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.

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.

- *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, 2015, outstanding purchase orders that will be reappropriated in the subsequent year totaled $713,448.

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

1. *Cash and cash equivalents*

   For purposes of the statement of cash flows for proprietary funds, 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.

2. *Investments*

   Investments are reported at fair value (generally based on quoted market prices), except for money market and participating interest-earning investment contracts that mature within one year of the date of their acquisition, and nonparticipating investment contracts that are stated at cost. The District intends, and is financially able, to hold temporarily impaired agency obligations until maturity. Accordingly, the District reports the investment at its amortized cost, even though that amount temporarily exceeds the investment's net realizable value. The District held no such investments at year end.

3. *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.

4. *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.

5. *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. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

6. *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.

7. *Pension liability*

In government-wide financial statements, pensions are required to be recognized and disclosed using the accrual basis of accounting (see Note IV.C. 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.

8. *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 between expected and actual actuarial experiences. 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) that are provided with pensions through the pension plan. For the 2014 measurement period, the *Average Expected Remaining Service Life* (AERSL) is 6.94 years.

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 between projected and actual earnings on pension plan investments. These amounts will be amortized over a closed five year period.

9. *Net position flow assumption*

Sometimes the District will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net positon 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.

10. *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.

11. *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.

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.

G. Revenues and expenditures/expenses

1. *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, 2015, the District recorded, in the general fund, a payable to the state in the amount of $2,107,762 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, 2015, the District recorded, in the debt service fund, a payable to the state in the amount of $63,337 for estimated overpayments.

2. *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, 2014, on which the 2014 levy was based, was $4,358,158,360. The District's maintenance and operations rate levied in 2014 was $1.040 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 2014 was $0.31324 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.

3. *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.

H. 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.

I. 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.

J. New accounting standards

For the current reporting period, the District implemented the following new accounting standards:

GASB Statement 68, *Accounting and Financial Reporting for Pensions* ("GASB 68"), establishes accounting and financial reporting standards for pensions that are provided to the employees of state and local governmental employers through pension plans that are administered through trusts or similar

arrangements that meet certain criteria. The statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. Implementation is reflected in the financial statements, notes to the financial statements, and required supplementary information.

GASB Statement 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* ("GASB 71"), amends the transition provisions of GASB 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions made subsequent to the measurement date of the beginning net pension liability. Implementation is reflected in the financial statements and the notes to the financial statements.

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.

Special revenue funds, other than the National School Breakfast and Lunch program, 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-length 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 debt service fund, Schedule J-3, shows principal on long-term debt expenditures exceeding appropriated amounts by $1,465,002, 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, 2015.

III. Detailed Notes on All Activities and Funds

A. Cash deposits and investments

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

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.

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.

Custodial Credit Risk for Deposits In case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. State law requires governmental entities to contract with financial institutions in which funds will be deposited to secure those deposits with insurance or pledged securities with a fair value equaling or exceeding the amount on deposit at the end of each business day. The pledged securities must be in the name of the governmental entity and held by the entity or its agent. The District has a depository contract with a financial institution and monitors its deposits to ensure its bank deposits are insured or fully collateralized with securities held by the pledging financial institution's agent in the District's name. Since the District complies with this law, it has no custodial credit risk for deposits.

The combined balance of cash, savings and time deposit accounts with the District's depository financial institution on August 31, 2015 amounted to $13,978,666, which was secured by FDIC insurance and collateral pledged in the amount of $28,728,532.

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.

As of August 31, 2015, the District's cash and investment balances were as follows:

	Total Fair Value	Governmental Activities	Fiduciary Funds
Cash and cash equivalents:			
Deposits (Cash)	$ 13,214,849	$ 13,214,849	$ -
Cash equivalents:			
Certificates of deposit	2,983,369	2,974,000	9,369
Insured cash shelter	9,580,015	9,580,015	-
Public funds investment pools:	34,770,164	34,770,164	-
Total cash equivalents	47,333,548	47,324,179	9,369
Total deposits and investments	$ 60,548,397	$ 60,539,028	$ 9,369

2. *Summary of investment accounts*

Certificates of Deposit – The District has purchased certificates of deposit through the Texas Term Texas Certificate of Deposit (CD) program. These CDs are held at various banks. The total value of each CD (principal and interest) does not exceed the applicable FDIC insurance limits. CDs are held in the name of the District. The District also holds three CDs at various banks for the fiduciary funds. The value of these CDs are cover by applicable FDIC insurance limits.

Insured Cash Shelter – Funds in the Insured Cash Shelter 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.

Lone Star Investment Pool - Lone Star is a member-owned and governed public funds investment pool. The Board of Trustees of the fund, which has governance responsibilities, is comprised of participants in Lone Star and members of the Texas Association of School Business Officials. The District has investments in the Government Overnight Fund and the Corporate Overnight Plus Fund, which are reported at fair value. Both funds seek to maintain a net asset value of one dollar and their dollar-weighted average maturity is 60 days or fewer. Each Lone Star fund is rated 'AAAm' by Standard and Poor's Ratings Services.

Texas CLASS – Texas CLASS is a government investment pool that invests only in securities allowed by the Texas Public Finds Investment Act. The pool is governed by a board of trustees, elected annually by its participants. Texas CLASS is rated 'AAAm' by Standard and Poor's. The public funds investment pool was created as a wholly-owned subsidiary of a publicly traded company.

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. Additionally, the Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The advisory board members review the investment policy and management fee structure. TexPool operates in a manner consistent with the SEC's Rule 2a-7 of the Investment Company Act of 1940. TexPool uses amortized cost rather than market value to report net assets to compute share prices. TexPool is rated 'AAAm' by Standard and Poor's.

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. TexSTAR is managed by a five-member board comprised of three representatives of eligible governmental entities and one member designated by each of the co-administrators. TexSTAR currently offers a Cash Reserve Fund which invests only in authorized investments under the Public Funds Investment Act with weighted average maturities which cannot exceed 60 days. The Cash Reserve Fund operates in a manner consistent with the SEC's Rule 2a-7 of the Investment Company Act of 1940. The Cash Reserve Fund uses amortized cost rather than the market value to report net assets to compute share prices. TexSTAR is currently rated 'AAAm' by Standard and Poor's.

TexasTERM Local Government Investment Pool – TexasTERM is a Texas public funds investment pool administered by Public Financial Management, Inc. TexasTERM is managed by a five-member board. TexasTERM offers a series of professionally managed portfolios available to government entities in the State of Texas. The TexasDAILY Fund is 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. TexasDAILY is rated 'AAAm' by Standard and Poor's. The TexasTERM fund is a fixed-rate, fixed-term portfolio that enables investors to lock in a fixed rate for a term of 60 days to 365 days. The Texas TERM fund is rated 'AAAf' by Standard and Poor's.

3. Specific risks of investments

<u>*Credit Risk*</u> -- 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, 2014, MBIA, TexPool, TexSTAR, Lone Star, and TexasTERM Daily are rated 'AAAm' by Standard and Poor's and TexasTERM Fixed Securities are rated 'AAAf'.

<u>*Custodial Credit Risk for Investments*</u> -- 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.

<u>*Concentration of Credit Risk*</u> -- 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.

<u>*Interest Rate Risk*</u> -- 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.

4. *Weighted average maturity*

The maximum allowable stated maturity of any other individual investment owned by the District cannot exceed two years. Weighted average maturity of investments at August 31, 2015, was as follows:

	Fair Value	Weighted Average Maturity (in Days)
Cash equivalents:		
Certificates of Deposit		
Governmental Activities:		
TexasTERM Certificate of Deposit Program	$ 2,974,000	365
Fiduciary Funds	9,369	366
Insured Cash Shelter	9,580,015	1
Public funds investment pools:		
Lone Star Investment Pool (Lone Star)	9,373,349	41
Texas CLASS	1,595,481	62
Texas Local Government Investment Pool (TexPool)	23,524,137	43
Texas Short Term Asset Reserve Fund (TexSTAR)	177,209	61
TexasTERM Local Government Investment Pool (TexasDAILY)	99,988	33
Total cash equivalents	$47,333,548	
Portfolio weighted average maturity		69

As required by 2256.023(8), we affirm compliance of the investment portfolio of the District as it relates to the District's investment strategy and Chapter 2256 of the local government code.

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, and the debt service fund.

Funds	General Fund	National School Breakfast & Lunch Pgm	Debt Service Fund	Other Governmental Funds	Total
Property taxes, delinquent	$2,587,001	$ -	$ 646,229	$ -	$3,233,230
Receivables from other governments	106,370	281,174	-	3,346,627	3,734,171
Interest	12,356	-	-	-	12,356
Other	10,383	-	-	75,358	85,741
Gross receivables	2,716,110	281,174	646,229	3,421,985	7,065,498
Less: Allowance for uncollectible taxes	(1,209,741)	-	(321,709)	-	(1,531,450)
Net receivables	$1,506,369	$ 281,174	$ 324,520	$ 3,421,985	$5,534,048

At August 31, 2015, the private interest trust fund has an accrued interest receivable of $211.

Approximately 64% of the outstanding balance of property taxes receivable is not anticipated to be collected within the next year.

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, 2015 are summarized below.

Fund	State Entitlements	Federal Grants and Reimbursements	Other Governments	Total
General fund	$ -	$ 106,370	$ -	$ 106,370
National School Breakfast & Lunch Program	-	281,174	-	281,174
Other governmental funds	47,113	3,159,410	140,104	3,346,627
Total	$ 47,113	$ 3,546,954	$ 140,104	$3,734,171

5. **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, 2015, consisted of the following:

Funds	Receivable	Payable
General fund	$ 3,950,477	$ 5,886,971
National School Breakfast and Lunch fund	224,291	-
Debt service fund	3,051,451	-
Capital projects funds	166,649	863,971
Other non-major governmental funds	1,060,294	3,086,508
Internal service fund	1,316,602	-
Private purpose trust fund	5,278	-
Agency funds	62,408	-
	$ 9,837,450	$ 9,837,450

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, 2015, operating transfers were made between the following funds:

Funds	Transfer In	Transfer Out
General fund	$ 45,000	$ 41,845
Other non-major governmental funds:		
Greater Waco Advanced Academies	41,845	-
Miscellaneous local grants	-	30,000
Fiduciary funds	-	15,000
	$ 86,845	$ 86,845

During the fiscal year ended August 31, 2015, the district made the following one-time transfers:

- A transfer of $41,845 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 $15,000 from fiduciary funds and $30,000 from a special revenue fund, miscellaneious local grants, to better align resources with intended purposes. The funds were received through the District's exclusive beverage contract with Coca-Cola.

6. **Capital assets**

Capital asset activity for the District for the year ended August 31, 2015 was as follows:

	Balance September 1, 2014	Additions	Retirements and Transfers	Balance August 31, 2015
Capital assets, not being depreciated:				
Land	$ 9,513,636	$ -	$ (225,946)	$ 9,287,690
Construction in progress	1,414,502	1,651,661	(2,220,842)	845,321
Total capital assets, not being depreciated	10,928,138	1,651,661	(2,446,788)	10,133,011
Capital assets, being depreciated:				
Buildings and improvements	279,078,215	2,220,842	(1,200,909)	280,098,148
Furniture, equipment, and vehicles	31,695,310	1,316,386	(3,717,697)	29,293,999
Total capital assets, being depreciated	310,773,525	3,537,228	(4,918,606)	309,392,147
Less accumulated depreciation for:				
Buildings and improvements	88,913,693	5,863,899	(143,852)	94,633,740
Furniture, equipment, and vehicles	20,096,783	3,233,619	(3,644,321)	19,686,081
Total accumulated depreciation	109,010,476	9,097,518	(3,788,173)	114,319,821
Total capital assets, being depreciated, net	201,763,049	(5,560,290)	(1,130,433)	195,072,326
Governmental activities capital assets, net	$ 212,691,187	$ (3,908,629)	$ (3,577,221)	$ 205,205,337

Depreciation expense of the governmental activities was charged to the functions as follows:

Function	Description	Amount
11	Instruction	$ 5,540,918
12	Instructional resources and media services	262,457
13	Curriculum and instructional staff development	15,117
21	Instructional leadership	104,762
23	School leadership	161,998
31	Guidance, counseling, and evaluation services	34,607
32	Social work services	600
33	Health services	34,103
34	Student transportation services	638,964
35	Food services	510,215
36	Extracurricular activities	732,879
41	General administration	170,906
51	Plant maintenance and operations	353,720
52	Security and monitoring services	139,934
53	Data processing services	368,980
61	Community services	27,358
	Total depreciation expense - governmental activities	$ 9,097,518

7. **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.

a. *Changes in long-term liabilities*

Long-term liability activity for the year ended August 31, 2015, was as follows:

	Balance September 1, 2014	Prior Period Adjustments	Increases	Decreases	Balance August 31, 2015	Due Within One Year
Bonds payable:						
General obligation bonds	$ 181,680,000	$ -	$ 106,455,000	$ (113,950,000)	$ 174,185,000	$ 5,660,000
Maintenance tax notes	1,120,000	-	-	(550,000)	570,000	570,000
Revenue bonds	1,805,000	-	-	(260,000)	1,545,000	275,000
Premiums	4,433,149	(341,120)	10,859,708	(2,068,825)	12,882,912	-
Accumulated accretion	1,334,044	2,166,362	2,308,542	(115,000)	5,693,948	-
Total bonds payable	190,372,193	1,825,242	119,623,250	(116,943,825)	194,876,860	6,505,000
Claims	741,970	-	31,600	(280,687)	492,883	-
Net pension liability	-	17,424,968	9,739,318	(12,973,624)	14,190,662	-
Total long-term liabilities	$ 191,114,163	$ 19,250,210	$ 129,394,168	$ (130,198,136)	$ 209,560,405	$ 6,505,000

Of the $174,185,000 outstanding general obligation bonds and related liabilities, $129,640,000 comprises debt backed by the full faith of the State of Texas Permanent School Fund.

The prior period adjustment shown for premiums on general obligation bonds corrects a calculation error for premiums on bonds refunded during the fiscal year ended August 31, 2013. The prior period adjustment shown for accumulated accretion corrects errors in prior years in calculating the accumulated accreted interest on capital appreciation bonds. Both adjustments are included as prior period adjustments on the statement of activities in the government-wide statements. The adjustment has no impact on the governmental fund financial statements.

During the fiscal year ended August 31, 2015, the District implemented GASB Statement No. 68 for Accounting and Reporting for Pensions and relating to the recognition of the District's share of net pension liability for the Texas Teachers Retirement System of Texas cost sharing pension plan. The beginning balance of the District's net pension liability of $17,424,968 is shown in the prior period adjustment column above.

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.

b. *General obligation bonds*

The District issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. These bonds generally are current interest serial bonds with maturities that range from 7 to 29 years. General obligation bonds outstanding at August 31, 2015 are as follows:

Series	Interest Rate Payable	Original Issue Amount	Maturity Date	Beginning Balance	Additions	Reductions	Ending Balance
2001	4.10%-5.50%	$ 18,500,000	2022	$ 1,530,000	$ -	$ (1,530,000)	$ -
2006	4.00%	4,650,000	2022	4,285,000	-	(45,000)	4,240,000
2006 (CAB)	4.23%	45,000	2020	45,000	-	-	45,000
2008	4.00%-5.25%	132,670,000	2030	114,520,000	-	(109,035,000)	5,485,000
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	3,025,000	-	(320,000)	2,705,000
2010	2.00%-3.25%	7,550,000	2020	7,000,000	-	(110,000)	6,890,000
2010 (CAB)	3.02%	25,000	2016	25,000	-	-	25,000
2013	0.28%-4.00%	9,635,000	2020	9,410,000	-	(1,445,000)	7,965,000
2014	2.00%-4.00%	8,320,000	2025	-	8,320,000	(185,000)	8,135,000
2014 (CAB)	2.70%	150,000	2023	-	150,000	-	150,000
2015	2.00%-5.00%	96,730,000	2038	-	96,730,000	(1,280,000)	95,450,000
2015 (CAB)	1.30%	1,255,000	2018	-	1,255,000	-	1,255,000
Totals -- bonds payable at original par value				181,680,000	106,455,000	(113,950,000)	174,185,000
Deferred amounts:							
For issuance premiums				4,092,029	10,859,708	(2,068,825)	12,882,912
For accreted interest				3,500,406	2,308,542	(115,000)	5,693,948
Totals -- bonds payable, net				$ 189,272,435	$ 119,623,250	$ (116,133,825)	$ 192,761,860

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
2016	$ 5,660,000	$ 8,302,369	$ 13,962,369
2017	6,630,000	7,320,881	13,950,881
2018	4,855,000	9,107,706	13,962,706
2019	6,915,000	6,942,806	13,857,806
2020	6,160,000	7,784,363	13,944,363
2021-2025	30,895,000	31,722,250	62,617,250
2026-2030	36,250,000	21,565,800	57,815,800
2031-2035	44,930,000	12,882,550	57,812,550
2036-2038	31,890,000	2,798,050	34,688,050
	174,185,000	$108,426,775	$282,611,775

Summary information for capital appreciation bonds is as follows:

Series	Accreted Value	Original Amount Outstanding	Ending Value Accreted Interest
Unlimited Tax Refunding Bonds, Series 2006	$ 608,367	$ 45,000	$ 563,367
Unlimited Tax School Building Bonds, Series 2009	5,054,003	2,705,000	2,349,003
Unlimited Tax Refunding Bonds, Series 2010	795,785	25,000	770,785
Unlimited Tax Refunding Bonds, Series 2014	294,518	150,000	144,518
Unlimited Tax Refunding Bonds, Series 2015	3,121,275	1,255,000	1,866,275
Total	$ 9,873,948	$ 4,180,000	$ 5,693,948

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, 2015. 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 2014 tax year was $0.31324.

As of August 31, 2015, the District had no authorized but unissued unlimited tax bonds.

c. *Advance refunding*

The district issued two series of refunding bonds during the fiscal year ended August 31, 2015, to refinance existing debt.

On September 15, 2014, the district issued $8,235,000 in unlimited tax refunding current interest serial bonds with interest rates ranging from 2.00% to 4.00%, $85,000 in current interest term bonds with an interest rate of 3.00%, and $150,000 in premium capital appreciation bonds with an initial yield to maturity of 2.70%. The proceeds were used to advance refund $8,470,000 of outstanding 2008 Series, unlimited tax school building and refunding bonds, which had an interest rate of 5.25%. The net proceeds of $9,572,472 (including original issue premiums on the current interest bonds of $1,129,545 and capital appreciation bonds of $138,135 and after payment of $165,208 in underwriting fees and other issuance costs) were deposited in an irrevocable trust with an escrow agent to provide funds for the future debt service payments on the refunded bonds.

As a result, 2008 Series bonds maturing on August 15 of 2023, 2024, and 2025 are considered defeased and the liability for those bonds has been removed from the statement of net position. The district advance refunded the bonds to reduce its total debt service payments over ten years by $1,201,304 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of $1,060,135.

On April 1, 2015, the district issued $96,730,000 in unlimited tax refunding current interest serial bonds, with interest rates ranging from 2.00% to 5.00%, and $1,255,000 in premium capital appreciation bonds with an initial yield to maturity of 1.30%. The proceeds were used to advance refund portions of the outstanding 2008 Series, unlimited tax school building and refunding bonds. The bonds refunded included $43,930,000 in current interest serial bonds, with interest rates ranging from 5.00% to 5.25% and $54,055,000 in current interest term bonds, with interest rates of 5.00%. The net proceeds of $108,654,358 (including original issue premiums on the current interest bonds of $9,730,163 and capital appreciation bonds of $1,255,000 and after payment of $915,067 in underwriting fees and other issuance costs) were deposited in an irrevocable trust with an escrow agent to provide funds for the future debt service payments on the refunded bonds.

As a result, 2008 Series bonds maturing on August 15 of 2018 through 2023 and 2026 through 2038 are considered defeased and the liability for those bonds has been removed from the statement of net position. The district advance refunded the bonds to reduce its total debt service payments over twenty-three years by $14,503,469 and to obtain an economic gain of $10,484,680.

Additionally, in prior years, the District defeased certain outstanding bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the respective trust account assets and the 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
Total	$106,455,000

3. *Maintenance tax notes*

On June 2, 2006, the District issued $4,750,000 in maintenance tax notes, with interest rates ranging from 4.25% to 5.00%, to acquire school buses. The notes are a general obligation of the District and repayment is funded through maintenance and operations ad valorem taxes. Debt service requirements for the maintenance tax notes are as follows:

Year Ended August 31,	Principal	Interest	Total
2016	$ 570,000	$ 28,500	$ 598,500

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 the 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 and, as such, capital assets and long-term debt liabilities 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
2016	$ 275,000	$ 77,413	$ 352,413
2017	290,000	61,875	351,875
2018	310,000	45,375	355,375
2019	325,000	27,913	352,913
2020	345,000	9,488	354,488
	$ 1,545,000	$ 222,063	$ 1,767,063

5. *Arbitrage*

The Federal Tax Reform Act of 1986 enacted section 148(f) if 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 United States 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, 2009 and 2010 series bonds and, as of August 31, 2015, there was no arbitrage rebate liability on the issued bonds.

8. **Pension obligations under defined benefit retirement plan**

a. *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.

b. 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 writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 8701; by calling the TRS Communications Department at 1-800-223-8778; or by downloading the report from the TRS website, www.trs.state.tx.us/about/documents/cafr.pdf#CAFR, under the TRS Publications heading.

c. *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 (a) above.

d. *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. It also added a 1.5% contribution for employers not paying Old Age Survivor and Disability Insurance (OASDI) on certain employees effective for fiscal year 2015 as discussed in Note 1 of the TRS 2014 CAFR. The 83rd Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2014 and 2015.

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

The contribution amounts for the District's fiscal year 2015 are as follows:

Employer Contributions	$ 2,847,516
Member Contributions	$ 5,563,292
NECE On-Behalf Contributions	$ 3,901,616

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, 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.

e. *Actuarial assumptions*

The total pension liability in the August 31, 2014 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	August 31, 2014
Actuarial Cost Method	Individual Entry Age Normal
Amortization Method	Level Percentage of Payroll, Open
Remaining Amortization Period	30 years
Asset Valuation Method	5 year Market Value
Discount Rate	8.00%
Long-term Expected Investment Rate of Return*	8.00%
Salary Increases*	4.25% to 7.25%
Weighted-Average at Valuation Date	5.55%
Payroll Growth Rate	3.50%

**Includes inflation of 3.00%*

The actuarial methods and assumptions are primarily based on a study of actual experience for the four year period ending August 31, 2010 and adopted on April 8, 2011. With the exception of the post-retirement mortality rates for healthy lives and a minor change to the expected retirement age for inactive vested members stemming from the actuarial audit performed in the Summer of 2014, the assumptions and methods are the same as used in the prior valuation. When the mortality assumptions were adopted in 2011 they contained a significant margin for possible future mortality improvement. As of the date of the valuation there has been a significant erosion of this margin to the point that the margin has been eliminated. Therefore, the post-retirement mortality rates for current and future retirees was decreased to add additional margin for future improvement in mortality in accordance with the Actuarial Standards of Practice No. 35.

f. *Discount rate*

The discount rate used to measure the total pension liability was 8.0%. There was no change in the discount rate since the previous year. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term rate of return on pension plan investments is 8%. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2014 are summarized below:

Asset Class	Target Allocation	Real Return Geometric Basis	Long-term Expected Portfolio Real Rate of Return*
Global Equity			
U.S.	18%	7.0%	1.4%
Non-U.S. Developed	13%	7.3%	1.1%
Emerging Markets	9%	8.1%	0.9%
Directional Hedge Funds	4%	5.4%	0.2%
Private Equity	13%	9.2%	1.4%
Stable Value			
U.S. Treasuries	11%	2.9%	0.3%
Absolute Return	0%	4.0%	0.0%
Stable Value Hedge Funds	4%	5.2%	0.2%
Cash	1%	2.0%	0.0%
Real Return			
Global Inflation Linked Bonds	3%	3.1%	0.0%
Real Assets	16%	7.3%	1.5%
Energy and Natural Resources	3%	8.8%	0.3%
Commodities	0%	3.4%	0.0%
Risk Parity			
Risk Parity	5%	8.9%	0.4%
Alpha			1.0%
Total	100%		8.7%

* The expected contribution to returns incorporates the volatility drag resulting from the conversion between arithmetic and geometric mean returns.

g. *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 2014 Net Pension Liability.

	1% Decrease in Discount Rate (7.0%)	Discount Rate (8.0%)	1% Increase in Discount Rate (9.0%)
Proportionate share of the net pension liability:	$ 25,357,854	$ 14,190,662	$ 5,839,683

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

At August 31, 2015, the District reported a liability of $14,190,662 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	$ 14,190,662
State's proportionate share that is associated with the District	42,706,018
Total	$ 56,896,680

The net pension liability was measured as of August 31, 2014 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, 2013 thru August 31, 2014.

At August 31, 2014 the employer's proportion of the collective net pension liability was 0.0531259%. Since this is the first year of implementation, the District does not have the proportion measured as of August 31, 2013. The Notes to the Financial Statements for August 31, 2014 for TRS stated that the change in proportion was immaterial and therefore disregarded this year.

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

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

There was a change in employer contribution requirements that occurred after the measurement date of the net pension liability and the employer's reporting date. A 1.5% contribution for employers not paying Old Age Survivor and Disability Insurance (OASDI) on certain employees went into law effective September 1, 2014. The amount of the expected resultant change in the employer's proportion cannot be determined at this time.

For the year ended August 31, 2015, the District recognized pension expense of $5,259,768 and revenue of $3,948,092 for support provided by the State.

At August 31, 2014, the District reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experiences	$ 219,463	$ -
Changes in actuarial assumptions	922,409	-
Differences between projected and actual investment earnings	-	4,337,246
Changes in proportion and differences between the employer's contributions and the proportionate share of contributions	-	3,720
Total	$ 1,141,872	$ 4,340,966

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

Year ended August 31,	Pension Expense Amount
2016	$ (892,306)
2017	(892,306)
2018	(892,306)
2019	(892,306)
2020	(192,006)
Thereafter	(178,124)

At August 31, 2015, 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
Total net amounts per August 31, 2014 measurement date	$ 1,141,872	$ 4,340,966
Contributions paid to TRS subsequent to the measurement date	2,847,516	-
Total	$ 3,989,388	$ 4,340,966

9. **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	$ 37,891
Other governmental funds	
Grant funds received prior to meeting eligibility requirements	344,359
Total	$ 382,250

10. **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 used, essentially, 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, 2015, the District has committed fund balance in the general fund for construction and other major improvement projects in the amount of $3.8 million and for capital expenditures for equipment in the amount of $1.1 million.

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, 2015, the District has assigned $1.6 million for major improvements, capital expenditures for equipment, outstanding purchase orders that will be reappropriated in 2016, and campus activity funds.

11. **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	Other Governmental Funds	Total
Property taxes	$ 45,316,372	$ -	$ 13,644,467	$ -	$ -	$ 58,960,839
Other tax related income	571,398	-	159,275	-	-	730,673
SSA revenue from member districts	44,107	-	-	-	1,174,837	1,218,944
Services to other districts	-	-	-	-	188,147	188,147
Tuition and fees	146,640	-	-	-	350,690	497,330
Investment income	77,072	314	3,393	8,367	148	89,294
Rental income	100,568	-	-	-	-	100,568
Gifts and bequests	-	-	-	-	484,681	484,681
Food sales	-	698,505	-	-	-	698,505
Extracurricular activities	520,863	-	-	-	143,036	663,899
Other	175,057	-	-	-	612,443	787,500
	$ 46,952,077	$ 698,819	$ 13,807,135	$ 8,367	$ 2,953,982	$ 64,420,380

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 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.

Contribution rates and amounts are shown in the table below for fiscal years 2015, 2014, and 2013.

Contribution Rates and Contribution Amounts

	Member		State		School District	
Year	Rate	Amount	Rate	Amount	Rate*	Amount
2015	0.65%	$ 539,722	1.00%	$ 702,731	0.55%	$ 456,688
2014	0.65%	507,091	1.00%	710,944	0.55%	532,664
2013	0.65%	484,905	0.50%	532,130	0.55%	422,419

**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, 2015, 2014, and 2013, the subsidy payments made by the TRS-Care on behalf of the District are as follows:

Fiscal Year	Medicare Part D On-behalf Payments
2015	$ 336,636
2014	203,437
2013	198,230

K. Risk Management

1. *Workers' compensation*

During the year ended August 31, 2015, 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.

The Fund and its members are protected against higher than expected claims costs through the purchase of stop loss coverage for any claim in excess of the Fund's self-insured retention of $1.5 million. The Fund uses the services of an independent actuary to determine reserve adequacy and fully funds those reserves. As of August 31, 2014, the Fund carries a discounted reserve of $56,905,750 for future development on reported claims and claims that have been incurred but not yet reported. For the year ended August 31, 2015, 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, 2014, are available on the TASB Risk Management Fund website and have been filed with the Texas Department of Insurance in Austin.

For the 2014-15 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, 2015, and has projected open claims and incurred but not reported claims for all years will cost $492,883. 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:

Fiscal Year	Beginning of Year Accrual	Claims Payment	Current Year Expense	End of Year Accrual
2015	$ 741,970	$ 280,687	$ 31,600	$ 492,883
2014	830,231	405,853	317,592	741,970
2013	804,894	272,581	297,918	830,231

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

During the year ended August 31, 2015, 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, 2015, 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, 2014, are available on the TASB Risk Management Fund website and have been filed with the Texas Department of Insurance in Austin.

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, an SSA which provides 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 Special Revenue Fund No. 446.

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

Member District	Percent of Students	Allocated Expenditures
Axtell	0.5%	$ 3,683
Bosqueville	0.0%	-
Bruceville-Eddy	1.1%	8,103
China Spring	0.7%	5,156
Connally	4.3%	31,674
Crawford	0.0%	-
La Vega	6.9%	50,825
Lorena	0.5%	3,683
Mart	1.6%	11,786
McGregor	0.1%	737
Midway	10.2%	75,133
Moody	0.1%	737
Robinson	5.5%	40,513
Waco	67.4%	496,466
West	1.1%	8,103
Total	100.0%	$ 736,597

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 Special Revenue Fund Nos. 315, 316, 317, 340, and 435.

Member districts' contributions are accounted for in fund 458. Expenditures of the SSA are summarized by member district as follows:

Member District	Percent of Students	Allocated Expenditures
Axtell	0.7%	$ 3,742
Bruceville-Eddy	3.7%	19,782
Connally	6.3%	33,682
La Vega	7.3%	39,029
Midway	3.7%	19,782
Robinson	3.7%	19,782
Waco	67.3%	359,812
Whitney	7.3%	39,029
Total	100.0%	$ 534,640

M. Economic dependency

During the year ended August 31, 2015, the District received 46 percent of its revenues from the State of Texas and 18 percent from federal sources.

N. Prior period adjustments

1. During fiscal year 2015, the District adopted GASB Statement No. 68 for Accounting and Reporting for Pensions. With GASB 68, the District must assume their proportionate share of the Net Pension Liability of the Teacher Retirement System of Texas. Adoption of GASB 68 required a prior period adjustment to report the effect of GASB 68, retroactively. The amount of the prior period adjustment is a decrease to net position of $16,078,080.
2. Prior period adjustments were made to correct calculation errors in the amortization amounts for premiums and deferred charges on refunding resulting from refunding bonds issued during the fiscal year ended August 31, 2013. The adjustments resulted in a decrease in amortized bond premiums of $341,120 and a decrease in deferred charges on refunding of $609,539. The net impact of these adjustments is a decrease to net position of $268,419.
3. A prior period adjustment was made to correct the accumulated accretion of interest on capital appreciation bonds. The amount of the prior period adjustment is an increase to the accumulated accretion (and noncurrent liabilities due after one-year) and a decrease to net position of $2,166,362.
4. The adjustments are included as prior period adjustments on the statement of activities in the government-wide statements. The entries resulted in a net impact to the beginning net position of $18,512,861. The restated beginning net position is $56,141,379. The adjustment has no impact on the governmental fund financial statements.

O. Subsequent events

On November 3, 2015, the District passed a tax ratification election raising the Maintenance and Operations ad valorem tax rate to the $1.17, the maximum allowed by law. Additional revenues generated by the increase will be used to fund literacy, discipline, and dual credit programs, expand programs at Brazos High School, and develop school-based health/mental health initiatives.

P. 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 Circular A-133 through August 31, 2014, 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, 2015, the District was party to construction contracts with a remaining commitment of $860,728.

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.

Q. Nonmonetary transactions

During 2015, the District received textbooks purchased by the State of Texas for the benefit of the District for a purchase price of $70,455. The District receives the textbooks as part of state funding for textbook allotment. The textbooks have been recorded in the amount of $70,455 in a special revenue fund as both state revenues and expenditures, which represents the amount of consideration given by the State of Texas.

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Required Supplementary Information

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Waco Independent School District

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual

General Fund

For the Year Ended August 31, 2015

Data Control Codes		Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts (GAAP Basis)	Variances With Final Budget
	Revenues				
5700	Local and intermediate sources	$ 45,901,263	$ 45,920,683	$ 46,952,077	$ 1,031,394
5800	State program revenues	69,967,933	70,020,980	70,602,927	581,947
5900	Federal program revenues	3,380,300	3,380,300	3,994,639	614,339
5020	Total revenues	119,249,496	119,321,963	121,549,643	2,227,680
	Expenditures				
	Current:				
6011	Instruction	62,161,588	62,011,421	60,736,301	1,275,120
6012	Instructional resources and media services	915,346	915,346	838,095	77,251
6013	Curriculum and instructional staff development	2,648,905	2,713,962	2,518,624	195,338
6021	Instructional leadership	2,615,331	2,728,625	2,568,788	159,837
6023	School leadership	8,654,759	8,849,473	8,799,712	49,761
6031	Guidance, counseling, and evaluation services	3,316,135	3,318,885	3,295,980	22,905
6032	Social work services	421,003	421,003	419,302	1,701
6033	Health services	1,041,866	1,076,775	1,068,353	8,422
6034	Student transportation services	3,055,987	3,827,655	2,054,638	1,773,017
6035	Food services	50,000	31,090	31,090	-
6036	Extracurricular activities	3,469,858	3,672,219	3,557,030	115,189
6041	General administration	4,034,495	4,230,425	4,020,328	210,097
6051	Plant maintenance and operations	15,934,165	20,580,449	16,810,885	3,769,564
6052	Security and monitoring services	1,952,285	2,142,340	2,038,704	103,636
6053	Data processing services	2,662,412	4,110,928	3,194,738	916,190
6061	Community services	716,836	736,136	712,002	24,134
	Debt service:				
6071	Principal on long-term debt	810,000	810,000	810,000	-
6072	Interest on long-term debt	148,125	148,145	148,145	-
6073	Bond issuance cost and fees	4,075	6,055	4,900	1,155
	Capital outlay:				
6081	Facilities acquisition and construction	82,764	2,269,341	1,424,640	844,701
	Intergovernmental:				
6093	Payments to fiscal agent/member districts of shared services arrangements	240,000	355,013	355,012	1
6095	Payments to Juvenile Justice Alternative Education Program	628,020	513,007	360,740	152,267
6097	Payments to tax increment fund	2,908,462	2,908,462	2,828,442	80,020
6099	Other intergovernmental charges	777,079	777,079	727,905	49,174
6030	Total expenditures	119,249,496	129,153,834	119,324,354	9,829,480
1100	Excess (deficiency) of revenues over (under) expenditures	-	(9,831,871)	2,225,289	12,057,160
	Other Financing Sources (Uses)				
7912	Sale of real and personal property	-	81,250	317,152	235,902
7915	Transfers in	-	-	45,000	45,000
8911	Transfers out	-	(48,779)	(41,845)	6,934
	Total other financing sources	-	32,471	320,307	287,836
1200	Net change in fund balance	-	(9,799,400)	2,545,596	12,344,996
0100	Fund balance, beginning	34,285,064	40,437,816	40,437,816	-
3000	Fund balance, ending	$ 34,285,064	$ 30,638,416	$ 42,983,412	$ 12,344,996

Exhibit G-2

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, 2015

Data Control Codes		Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts (GAAP Basis)	Variances With Final Budget
	Revenues				
5700	Local and intermediate sources	$ 700,725	$ 700,725	$ 698,819	$ (1,906)
5800	State program revenues	156,085	156,085	56,767	(99,318)
5900	Federal program revenues	8,369,807	8,600,733	8,450,463	(150,270)
5020	Total revenues	9,226,617	9,457,543	9,206,049	(251,494)
	Expenditures				
	Current:				
6035	Food services	9,226,617	9,451,242	9,065,473	385,769
6030	Total expenditures	9,226,617	9,451,242	9,065,473	385,769
1100	Excess of revenues over expenditures	-	6,301	140,576	134,275
	Other Financing Sources (Uses)				
7912	Sale of real and personal property	-	-	14,762	14,762
	Total other financing sources	-	-	14,762	14,762
1200	Net change in fund balance	-	6,301	155,338	149,037
0100	Fund balance, beginning	1,046,242	1,407,414	1,407,414	-
3000	Fund balance, ending	$ 1,046,242	$ 1,413,715	$ 1,562,752	$ 149,037

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, 2015

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 2015, General Fund appropriations were increased by $9.9 million. Budgeted appropriations increased for the following: $3.1 million for the reappropriation of budgets renovations and major repairs projects which were not completed at August 31, 2015; $0.5 million for purchase orders from fiscal year 2014 that were honored in fiscal year 2015; $0.2 million in additional staffing support; $5.8 million in new renovations and major repair projects and $0.3 million for start-up costs for the Greater Waco Advanced Health Care Academy.

Functional expenditures did not exceed appropriations in either the General Fund or National School Breakfast and Lunch Fund for the fiscal year ended August 31, 2015.

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 Debt Service Fund, Schedule J-3, shows principal on long-term debt expenditures exceeding appropriated amounts by $1,465,002, total expenditures for debt services did not exceed the amended budget for function 71.

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, 2015

	2014
District's proportion of the net pension liability (asset)	0.0531259%
District's proportionate share of the net pension liability (asset)	$ 14,190,662
State's proportionate share of the net pension liability (asset) associated with the District	42,706,018
Total	$ 56,896,680
District's covered employee payroll	$ 78,027,228
District's proportionate share of the net pension liability (asset) as a percentage of its covered employee payroll	18.19%
Plan fiduciary net position as a percentage of the total pension liability	83.25%

Waco Independent School District
Schedule of the District Contributions
Teacher Retirement System
For the Year Ended August 31, 2015

	2015
Contractually required contribution	$ 2,847,516
Contribution in relation to the contractually required contribution	(2,847,516)
Contribution deficiency (excess)	$ -
District's covered employee payroll	$ 83,034,215
Contributions as a percentage of covered employee payroll	3.43%

Note: GASB 68, Paragraph 81.2.b requires that the data in this schedule be presented as of the District's current fiscal year as opposed to the time period covered by the measurement date of September 1, 2013 through August 31, 2014.

Note: Only one year of data is presented in accordance with GASB 68, paragraph 138. The information for all periods for the ten-year schedules, required to be presented as required supplementary information, is not available. During the transition period, the 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, 2015

Pension Information

Actuarial assumptions

The information presented in the required supplementary schedules was used in the actuarial valuation for determining the actuarially determined contribution rate and the Net Pension Liability in accordance with GASB 67. Actuarial methods and assumptions used for funding purposes can be found in the Actuarial Section. The GASB 67 assumptions are as follows:

Valuation date	August 31, 2014
Actuarial cost method	Individual Entry Age Normal
Amortization method	Level Percentage of Payroll, Open
Remaining amortization period	30 years
Asset valuation method	5-year Smoothed Market
Actuarial assumptions:	
Discount rate	8.00%
Long-term expected investment rate of return	8.00%
Inflation	3.00%
Salary increases	4.25% to 7.25% including inflation
Ad hoc post-employment benefit changes	none*

**The COLA for the period beginning September 1, 2013 was paid starting October 1, 2013 and was included in the 2013 Actuarial Valuation and thus is not considered an ad hoc post-employment benefit change assumption for fiscal year 2014.*

Supplementary Information

Waco Independent School District
Schedule of Delinquent Taxes Receivable
For the Year Ended August 31, 2015

Last Ten Years Ended August 31,	1 Tax Rates Maintenance & Operations	2 Tax Rates Debt Service	3 Assessed Appraised Value For School Tax Purposes
2006 and prior years	Various	Various	Various
2007	$ 1.32181	$ 0.12200	$ 3,370,354,309
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 (school year under audit)	1.04000	0.31324	4,358,158,360
100 Totals			

9000 Taxes paid into Tax Increment Financing Zone under Chapter 311, Tax Code, included in above totals (see footnote).

10	20	31	32	40	50
Balance September 1, 2014	Current Year's Total Levy	Total Collections: Maintenance & Operations	Total Collections: Debt Service	Entire Year's Adjustments	Balance August 31, 2015
$ 576,100	$ -	$ 23,750	$ 2,113	$ (115,788)	$ 434,449
169,541	-	4,729	436	(8,391)	155,985
156,684	-	6,115	717	(7,258)	142,594
199,042	-	11,448	3,512	(11,179)	172,903
234,419	-	17,711	5,557	(14,015)	197,137
244,224	-	68,646	21,435	42,946	197,089
287,661	-	82,776	25,549	49,104	228,440
449,987	-	106,127	32,163	(24,860)	286,837
1,200,913	-	543,903	164,636	(66,610)	425,764
-	58,976,342	44,451,167	13,388,349	(144,794)	992,032
$ 3,518,570	$ 58,976,342	$ 45,316,372	$ 13,644,467	$ (300,843)	$ 3,233,230
		$ 2,345,953	$ 706,183		

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, 2015

Data Control Codes		Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts (GAAP Basis)	Variances With Final Budget
	Revenues				
5700	Local and intermediate sources	$ 13,139,045	$ 13,139,045	$ 13,807,135	$ 668,090
5800	State program revenues	2,448,441	2,448,441	2,664,821	216,380
5020	Total revenues	15,587,486	15,587,486	16,471,956	884,470
	Expenditures				
	Debt service:				
6071	Principal on long-term debt	6,030,000	6,030,000	7,495,002	(1,465,002)
6072	Interest on long-term debt	8,747,120	8,747,120	7,279,095	1,468,025
6073	Bond issuance cost and fees	20,000	1,079,185	1,071,083	8,102
	Intergovernmental:				
6097	Payments to tax increment fund	790,366	790,366	706,183	84,183
6030	Total expenditures	15,587,486	16,646,671	16,551,363	95,308
1100	Excess (deficiency) of revenues over (under) expenditures	-	(1,059,185)	(79,407)	979,778
	Other Financing Sources (Uses)				
7901	Refunding bonds issued	-	106,455,000	106,455,000	-
7916	Premium on refunding bonds issued	-	12,852,105	12,852,104	1
7917	Prepaid interest on bonds issued	-	(9,572,472)	-	(9,572,472)
8940	Payment to refunded bond escrow agent	-	(108,654,358)	(118,226,829)	9,572,471
7080	Total other financing sources	-	1,080,275	1,080,275	-
1200	Net change in fund balance	-	21,090	1,000,868	979,778
0100	Fund balance, beginning	3,649,470	3,626,685	3,626,685	-
3000	Fund balance, ending	$ 3,649,470	$ 3,647,775	$ 4,627,553	$ 979,778

Compliance, Internal Control, and Federal Awards

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Waco Independent School District (District), as of and for the year ended August 31, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 6, 2016.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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.

Respectfully,

Hereford, Lynch, Sellars & Kirkham, P.C.

HEREFORD, LYNCH, SELLARS & KIRKHAM, P.C.
Certified Public Accountants

Conroe, Texas
January 6, 2016

HLSK

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

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

Report on Compliance for Each Major Federal Program

We have audited Waco Independent School District's (District) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended August 31, 2015. 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe 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, Waco Independent School District complied in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2015.

Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance,

we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Respectfully,

Hereford, Lynch, Sellars & Kirkham, P.C.

HEREFORD, LYNCH, SELLARS & KIRKHAM, P.C.
Certified Public Accountants

Conroe, Texas
January 6, 2016

WACO INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2015

SECTION I – SUMMARY OF AUDITORS' RESULTS	
FINANCIAL STATEMENTS	
1. Type of auditors' 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 auditors' report issued on compliance with major programs?	Unmodified
6. Any Audit Findings Disclosed that are Required to be Reported in Accordance with Section 510(a) of OMB Circular A-133?	No
7. Identification of Major Programs	84.165A ESEA, Title V, Part C, Magnet Schools Assistance 84.010A ESEA, Title I, Part A 84.377A Texas Title I Priority Schools
8. Dollar Threshold Used to Distinguish Between Type A and Type B Federal Programs	$855,499
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, 2015

PRIOR YEAR FINDINGS
None reported

Waco Independent School District
Schedule of Expenditures of Federal Awards
For the Year Ended Auguts 31, 2015

(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.S. Department of Education			
Direct Programs:			
ESEA Title V, Part C-Magnet Schools Assistance	84.165A	U165A130077	1,028,407
ESEA Title V, Part C-Magnet Schools Assistance	84.165A	U165A130077	121,671
ESEA Title V, Part C-Magnet Schools Assistance	84.165A	U165A130077-14	1,317,376
Total Program 84.165A			2,467,454
ESEA Title V, Part D - School Improvement	84.215E	S215E130477-14	10,329
ESEA Title V, Part D - School Improvement	84.215E	S215E130477-14	363,169
ESEA Title V, Part D - School Improvement	84.215E	S215E130477-15	26,335
Total Program 84.215E			399,833
Total Direct Programs			2,867,287
Passed Through State Department of Education:			
ESEA Title I, Part A - Improving Basic Programs	84.010A	14610101161914	$ 576,035
ESEA Title I, Part A - Improving Basic Programs	84.010A	15610101161914	6,529,541
ESEA Title I, Part A - Improving Basic Programs	84.010A	16610101161914	469,167
Title I 1003(A) Priority & Focus School Grant	84.010A	14610112161914002	9,902
Title I 1003(A) Priority & Focus School Grant	84.010A	14610112161914003	5,961
Title I 1003(A) Priority & Focus School Grant	84.010A	14610112161914007	6,336
Title I 1003(A) Priority & Focus School Grant	84.010A	14610112161914043	7,345
Title I 1003(A) Priority & Focus School Grant	84.010A	14610112161914048	42,204
Title I 1003(A) Priority & Focus School Grant	84.010A	14610112161914050	20,720
Title I 1003(A) Priority & Focus School Grant	84.010A	14610112161914101	7,555
Title I 1003(A) Priority & Focus School Grant	84.010A	14610112161914104	21,731
Title I 1003(A) Priority & Focus School Grant	84.010A	14610112161914105	3,126
Title I 1003(A) Priority & Focus School Grant	84.010A	14610112161914110	117,953
Title I 1003(A) Priority & Focus School Grant	84.010A	14610112161914121	13,102
Title I 1003(A) Priority & Focus School Grant	84.010A	14610112161914130	1,541
Title I 1003(A) Priority & Focus School Grant	84.010A	15610112161914002	24,206
Title I 1003(A) Priority & Focus School Grant	84.010A	15610112161914003	17,745
Title I 1003(A) Priority & Focus School Grant	84.010A	15610112161914007	18,856
Title I 1003(A) Priority & Focus School Grant	84.010A	15610112161914043	18,754
Title I 1003(A) Priority & Focus School Grant	84.010A	15610112161914048	136,459
Title I 1003(A) Priority & Focus School Grant	84.010A	15610112161914101	25,007
Title I 1003(A) Priority & Focus School Grant	84.010A	15610112161914104	174,958
Title I 1003(A) Priority & Focus School Grant	84.010A	15610112161914105	26,832
Title I 1003(A) Priority & Focus School Grant	84.010A	15610112161914106	15,329
Title I 1003(A) Priority & Focus School Grant	84.010A	15610112161914121	15,452
Title I 1003(A) Priority & Focus School Grant	84.010A	15610112161914130	22,160
Total Program 84.010A			8,327,977
Special Education Cluster (IDEA):			
IDEA - Part B Formula	84.027A	146600011619146600	2,941
IDEA - Part B Formula	84.027A	156600011619146600	3,223,338
IDEA - Part B Formula	84.027A	166600011619146600	222,101
IDEA - Part B Preschool	84.173A	156610011619146610	29,893
SSA-IDEA-Part B-Discretionary (Deaf)	84.027A	156600111619146673	13,777
SSA-IDEA-Part B-Formula Deaf	84.027A	156600011619146601	23,319
SSA-IDEA-Part B-Preschool Deaf	84.173A	156610011619146611	751
Total Special Education Cluster (IDEA)			3,516,120

Waco Independent School District
Schedule of Expenditures of Federal Awards
For the Year Ended Auguts 31, 2015

(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:			
Career and Technical - Basic Grant	84.048A	15420006161914	188,875
Career and Technical - Basic Grant	84.048A	16420006161914	32,673
Total Program 84.048A			221,548
Title III, Part A - English Language Acquisition and Language Enhancement	84.365A	14671001161914	2,090
Title III, Part A - English Language Acquisition and Language Enhancement	84.365A	15671001161914	314,516
Title III, Part A - English Language Acquisition and Language Enhancement	84.365A	16671001161914	16,307
Total Program 84.365A			332,913
ESEA Title II, Part A - Teacher and Principal Training and Recruiting	84.367A	14694501161914	33,824
ESEA Title II, Part A - Teacher and Principal Training and Recruiting	84.367A	15694501161914	1,010,182
ESEA Title II, Part A - Teacher and Principal Training and Recruiting	84.367A	16694501161914	93,578
Total Program 84.367A			1,137,584
Summer School LEP	84.369A	69551402	12,780
Texas Title I Priority Schools, Cycle 3	84.377A	146107107110018	1,185,489
Texas Title I Priority Schools, Cycle 3	84.377A	146107107110019	619,404
Total Program 84.377A			1,804,893
Passed through Education Service Center Region 10:			
ESEA Title X, Part C McKinney-Vento Homeless Education	84.196A	14-036	(114)
ESEA Title X, Part C McKinney-Vento Homeless Education	84.196A	15-019	149,400
Total Program 84.196A			149,286
Total Passed through the State Department of Education			15,503,100
Total U.S. Department of Education			18,370,388
U.S. Department of Agriculture			
Direct Program:			
Healthier US School Challenge	10.543	00789	1,199
Child Nutrition Cluster:			
Passed Through State Department of Education - Cash Assistance:			
School Breakfast Program	10.553	71401501	2,250,743
National School Lunch Program	10.555	71301501	6,379,248
Total Passed Through the State Department of Education			8,629,991
Passed Through State Department of Agriculture - Non Cash Assistance:			
National School Lunch Program	10.555	00789	617,408
Passed Through State Department of Agriculture - Cash Assistance:			
Summer Feeding Program	10.559	7561013	601,893
Total Child Nutrition Cluster			9,849,292
Fresh Fruit and Vegetable Program	10.582	00789	155,267
Total Passed through the State Department of Agriculture			1,374,568
Total U.S. Department of Agriculture			10,005,758
U.S. Department of Labor			
Passed Through Texas Workforce Commission			
WIA Dislocated Worker Formula Grants	17.278	1315ATP000	14,688
Total Passed through the Texas Workforce Commission			14,688
Total U.S. Department of Labor			14,688

Waco Independent School District
Schedule of Expenditures of Federal Awards
For the Year Ended Auguts 31, 2015

(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.S. Department of Health and Human Services			
Passed Through Texas Workforce Commission			
Temporary Assistance for Needy Families	93.558	1315ATP000	4,967
Total Passed through the Texas Workforce Commission			4,967
Total U.S. Department of Health and Human Services			4,967
U.S. Department of Justice - Juvenile Justice and Delinquency Prevention			
Passed Through Texas Office of the Governor-Criminal Justice Division			
Suspend Kids to School	16.540	24320-04	120,704
Total Passed through the Texas Office of the Governor-Criminal Justice Division			120,704
Total U.S. Department of Justice-Juvenile Justice and Delinquency Prevention			120,704
U.S. Department of Defense			
Direct Program:			
Reserve Officers' Training Corps	12.000	N/A	102,874
Total Direct Program			102,874
Passed Through McLennan County:			
Payments in Lieu of Real Estate Taxes	12.112	N/A	1,649
Total Passed Through McLennan County			1,649
Total Expenditures of Federal Awards			$ 28,621,027

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 OMB Circular A-133 and Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

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 Impact Aid which are recorded in the general fund. Although recorded as federal revenue in the general fund, Medicaid and E-rate reimbursements 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	$ 28,621,027
Medicaid Administrative Claiming Program (MAC)	168,097
Student Health and Related Services Program (SHARS)	2,071,164
Universal E-rate	18,715
Total federal program revenues - Exhibit C-2	$ 30,879,003

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, 2015

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.	$ 5,693,948
SF11	Net pension assets (1920) at fiscal year-end	$ -
SF12	Net pension liabilities (2540) at fiscal year-end	$14,190,662
SF13	Pension expense (6147) at fiscal year-end, excluding on-behalf pension expense (6144)	$ 1,311,676