

Waco Independent School District

Annual Financial Reports

For the Year Ended August 31, 2013

Waco Independent School District
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Introductory Section

Certificate of Board

Waco Independent School District

McLennan County

161-914

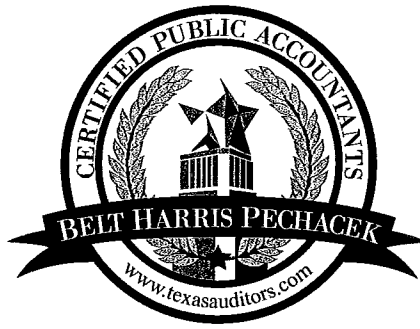
We, the undersigned, certify that the attached annual financial and compliance reports of the above named independent school district were reviewed and approved for the year ended August 31, 2013 at a meeting of the Board of Trustees of such independent school district on the 23rd day of January 2014.


Board Secretary


Board President

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

Financial Statements



INDEPENDENT AUDITORS' REPORT

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

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Waco Independent School District (the "District") as of and for the year ended August 31, 2013, 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.

Auditors' 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 District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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Governmental
Audit Quality Center

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of August 31, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and budgetary comparison information, identified as Required Supplementary Information on 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section 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 accompanying other supplementary information is presented for purposes of additional analysis and is also not a required part of the financial statements.

The schedule of expenditures of federal awards and other supplementary information 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section and schedules labeled "unaudited" have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 21, 2014 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

BELT HARRIS PECHACEK, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas
January 21, 2014

Management's Discussion and Analysis

Waco Independent School District
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended August 31, 2013

As management of the Waco Independent School District (the "District"), we offer readers of the financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended August 31, 2013. 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, and discussing the impact of these variances on future liquidity.

We encourage readers to consider the information presented in this section in conjunction with the financial statements and 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, 2013:

- ♦ On a government-wide basis, total assets exceeded its liabilities by \$68,177,841. This amount represents the District's net position of which \$29,784,107 is a net investment in capital assets and \$2,187,110 is restricted for debt service. The remaining \$36,206,624 is unrestricted and may be used to meet ongoing obligations.
- ♦ Total net position for governmental activities increased by \$3,716,546 over the prior year with unrestricted net position decreasing by \$2,147,833.
- ♦ As of August 31, 2013, the governmental funds reported combined ending fund balances of \$41,587,173, a decrease of \$6,153,590 compared with the prior year. Of the combined fund balances, \$29,668,401 or 71.3 percent is unassigned and available for the discrete purposes for which these funds are collected.
- ♦ The District's general fund had an ending fund balance of \$32,913,938 at August 31, 2013, of which \$29,668,401 was unassigned. The unassigned amount represents 25.8 percent of its annual operating expenditures. Although, the total fund balance decreased by \$1,992,055 from the prior year, the unassigned fund balance decreased by \$102,169, reflecting decreases in funds committed for special projects, particularly renovations to accommodate school consolidations which were completed during the year.
- ♦ The ending fund balance for the National School Breakfast and Lunch Programs was \$1,482,934, a decrease of \$6,413 over the prior year. Nonspendable inventories decreased by \$99,794.
- ♦ The District's total long-term debt decreased by \$6,734,362. The fund balance reserved for debt service increased by \$357,428 to \$3,476,956 at August 31, 2013.

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. This report also contains other supplementary information in addition to the basic financial statements, including schedules required by the District's oversight agency, the Texas Education Agency (TEA). These components are illustrated below.

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

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

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

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 and liabilities at the end of the year, with the difference between the two reported as *net position*. This statement consolidates current financial resources with capital assets and long-term obligations. Although the purpose of the District is not to accumulate net position, in general, as the amount increases or decreases, it may indicate whether it needs to consider additional non-financial factors such as changes in the District's average daily attendance and tax base, as well as the condition of school buildings and other facilities.

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

Revenues in the statement of activities are divided into those provided through user charges or by outside agencies, those sharing the costs of specific functions, and general purpose revenues provided by the taxpayers or by the State through formula grants.

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. The operations of the Child Care Center were accounted for in an enterprise fund, shown as a business-type activity in the government-wide statements. 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. Fund accounting is based upon compliance with finance-related legal requirements underlying each fund. Management may also establish funds to assist in controlling and managing money for specific 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 insure proper accountability. Information is presented separately in the governmental funds financial statements for the general fund, the National School Breakfast and Lunch fund, the debt service fund, and the combined capital projects funds. The general fund, by definition is always considered a major fund. Both the capital projects funds for the 2008 and 2009 issues meet the criteria to be considered as a major fund so, as allowed under GASB 34, all capital projects funds have been presented in a combined format. The National School Breakfast and Lunch fund and the debt service fund are presented as major 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 any 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 program and unemployment insurance. 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 the operations. The District is the trustee, or fiduciary, for these funds and is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. The fiduciary funds include scholarship funds and activities of the student groups.

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

In addition to the basic financial statements and accompanying notes, this report also presents certain required and other supplementary information. These schedules include budgetary comparisons for the general fund, National School Breakfast and Lunch fund, and the debt service fund as well as a schedule of federal awards and other schedules required by the Texas Education Agency.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The District's overall financial position and operations for the fiscal years ended August 31, 2013 and 2012 are summarized as follows, based on the information included in the government-wide financial statements.

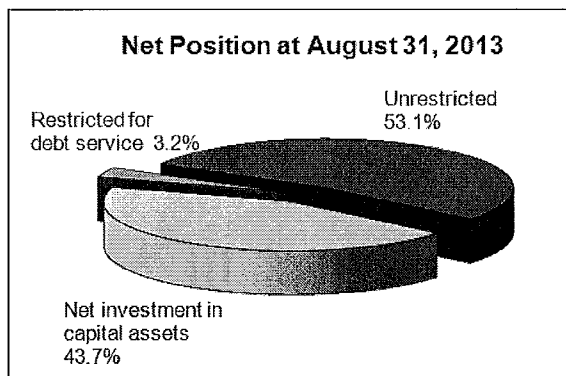
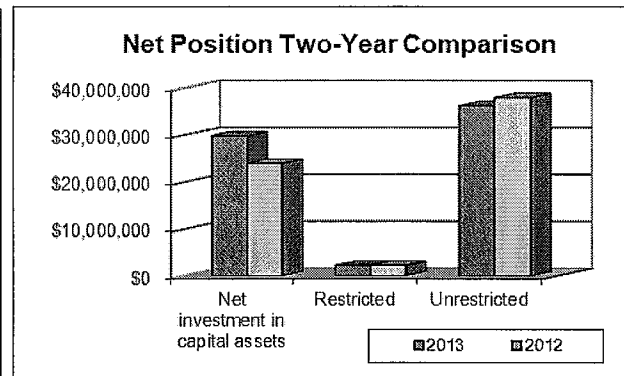
Waco Independent School District's Statement of Net Position

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Current and other assets	\$ 52,487,391	\$ 58,013,875	\$ -	\$ 2,045	\$ 52,487,391	\$ 58,015,920
Capital assets	220,613,378	217,438,390	-	-	220,613,378	217,438,390
Total assets	273,100,769	275,452,265	-	2,045	273,100,769	275,454,310
Current liabilities	16,310,575	15,801,828		2,045	16,310,575	15,803,873
Long-term liabilities	188,612,353	195,076,715	-	-	188,612,353	195,076,715
Total liabilities	204,922,928	210,878,543	-	2,045	204,922,928	210,880,588
Net position:						
Net investment in capital assets	29,784,107	23,918,311	-	-	29,784,107	23,918,311
Restricted	2,187,110	2,188,527	-	-	2,187,110	2,188,527
Unrestricted	36,206,624	38,354,457	-	-	36,206,624	38,354,457
Total net position	\$ 68,177,841	\$ 64,461,295	\$ -	\$ -	\$ 68,177,841	\$ 64,461,295

The total assets exceed total liabilities by \$68,177,841 at August 31, 2013, increasing \$3,716,546 over the prior year. At the end of the fiscal year, 53.1 percent of net position was unrestricted resources available to fund the ongoing operations of the District. Unrestricted funds in the government-wide statements include amounts, other than funds restricted for debt service, shown as nonspendable, restricted, committed, or assigned in the fund statements.

Another 43.7 percent of the District's net position was in net investment in capital assets. This amount represents investments in land, buildings, improvements, furniture, and equipment, less related outstanding debt used to acquire the assets. These assets are not available to fund ongoing operations and, although the capital assets are reported net of related debt, the resources needed to repay the debt must be provided from other sources. The District's net investment in capital assets increased \$5,865,796. Capital assets increased \$3,611,721, net of related depreciation which increased \$6,316,643. Related debt decreased by \$6,734,362. Total debt is offset by unexpended debt proceeds in the amount of \$3,296,127.

The remaining 3.2 percent of net position represents resources subject to external restrictions on how they are used. This restricted net position represents amounts legally reserved under bond covenants.



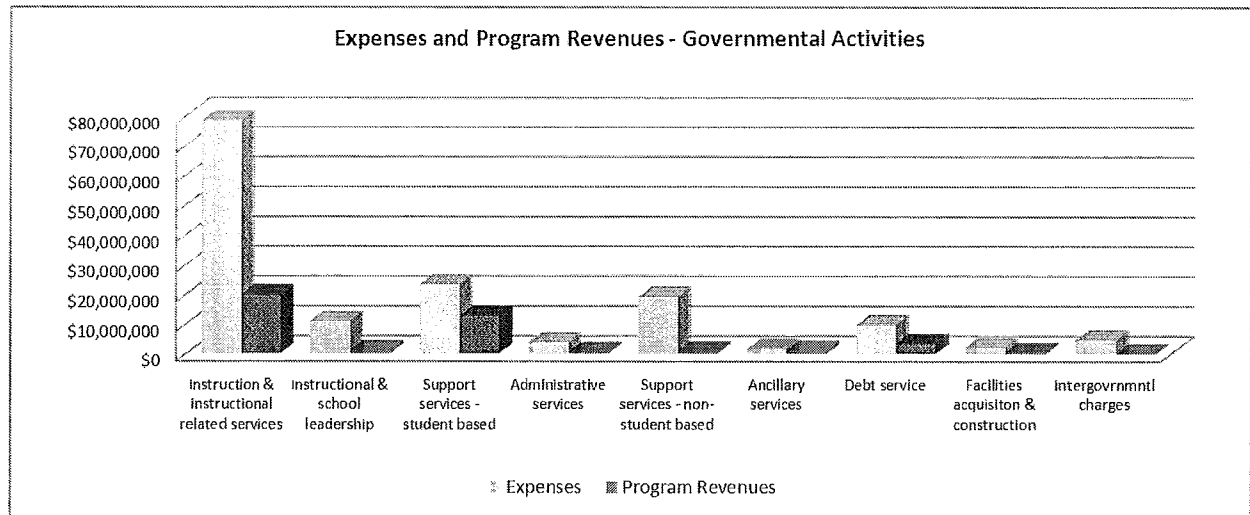
Changes in Net Position

The following table provides a summary comparing the District's operations for the years ended August 31, 2013 and 2012. For the year ended August 31, 2013, governmental activities increased net position by \$3,716,546. The District had no business-type activities in 2013.

Waco Independent School District's Changes in Net Position

	Governmental Activities		Business-type Activities		Total		% Change
	2013	2012	2013	2012	2013	2012	
Revenues:							
Program Revenues:							
Charges for services	\$ 3,375,763	\$ 2,567,868	\$ -	\$ 117,808	\$ 3,375,763	\$ 2,685,676	31.46%
Operating grants and contributions	36,972,531	40,923,694	-	-	36,972,531	40,923,694	-9.65%
General Revenues:							
Property taxes	54,244,499	52,245,349	-	-	54,244,499	52,245,349	3.83%
State aid -- formula grants	61,632,137	61,305,521	-	-	61,632,137	61,305,521	0.53%
Investment earnings	150,235	196,319	-	-	150,235	196,319	-23.47%
Miscellaneous revenue	873,017	651,999	-	-	873,017	651,999	33.90%
Total revenues	<u>157,248,182</u>	<u>157,890,750</u>	<u>-</u>	<u>117,808</u>	<u>157,248,182</u>	<u>158,008,558</u>	-0.41%
Expenses:							
Instruction	70,548,505	69,553,287	-	-	70,548,505	69,553,287	1.43%
Instructional resources and media services	1,040,805	1,171,223	-	-	1,040,805	1,171,223	-11.14%
Curriculum development and instructional staff development	6,884,856	7,162,676	-	-	6,884,856	7,162,676	-3.88%
Instructional leadership	2,693,158	2,715,340	-	-	2,693,158	2,715,340	-0.82%
School leadership	8,310,370	8,442,081	-	-	8,310,370	8,442,081	-1.56%
Guidance, counseling, and evaluation services	4,169,755	3,950,581	-	-	4,169,755	3,950,581	5.55%
Social work services	362,398	620,481	-	-	362,398	620,481	-41.59%
Health services	948,578	1,101,021	-	-	948,578	1,101,021	-13.85%
Student transportation	3,080,299	2,985,457	-	-	3,080,299	2,985,457	3.18%
Food services	10,231,923	9,809,566	-	-	10,231,923	9,809,566	4.31%
Extracurricular activities	4,544,834	3,873,666	-	-	4,544,834	3,873,666	17.33%
General administration	3,840,553	3,544,327	-	-	3,840,553	3,544,327	8.36%
Plant maintenance and operations	14,898,553	14,953,331	-	-	14,898,553	14,953,331	-0.37%
Security and monitoring services	1,920,229	1,578,323	-	-	1,920,229	1,578,323	21.66%
Data processing services	2,358,120	3,047,696	-	-	2,358,120	3,047,696	-22.63%
Community services	1,653,751	1,687,808	-	224,795	1,653,751	1,912,603	-2.02%
Debt service - interest on long-term debt	9,589,096	10,526,975	-	-	9,589,096	10,526,975	-8.91%
Debt service - bond issuance costs and fees	158,974	7,050	-	-	158,974	7,050	2154.95%
Facilities acquisition and construction	2,205,186	2,578,887	-	-	2,205,186	2,578,887	-14.49%
Payments to fiscal agents/member districts of shared services arrangements	156,879	186,303	-	-	156,879	186,303	-15.79%
Payments to Juvenile Justice Alternative Education program	556,650	491,733	-	-	556,650	491,733	13.20%
Payments to tax increment fund	3,393,153	2,839,129	-	-	3,393,153	2,839,129	19.51%
Other intergovernmental charges	597,698	583,310	-	-	597,698	583,310	2.47%
Total expenses	<u>154,144,323</u>	<u>153,410,251</u>	<u>-</u>	<u>224,795</u>	<u>154,144,323</u>	<u>153,635,046</u>	0.48%
Increase or (decrease) in net position before transfers, special and extraordinary items	3,103,859	4,480,499	-	(106,987)	3,103,859	4,373,512	-30.73%
Special item -- gain on sale of equipment	612,687	630,002	-	-	612,687	630,002	-2.75%
Special item -- repayment of grant funds	-	(250,000)	-	-	-	(250,000)	-100.00%
Special item -- impairment of assets	-	(527,262)	-	-	-	(527,262)	-100.00%
Transfers in (out)	-	49,304	-	376,598	-	425,902	-100.00%
Increase in net position	<u>3,716,546</u>	<u>4,382,543</u>	<u>-</u>	<u>269,611</u>	<u>3,716,546</u>	<u>4,652,154</u>	-15.20%
Net position, September 1	<u>64,461,295</u>	<u>60,078,752</u>	<u>-</u>	<u>(269,611)</u>	<u>64,461,295</u>	<u>59,809,141</u>	7.29%
Net position, August 31	<u>\$ 68,177,841</u>	<u>\$ 64,461,295</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 68,177,841</u>	<u>\$ 64,461,295</u>	5.77%

The cost of all governmental activities totaled \$154,144,323, increasing \$734,072 from the prior year. Program revenues of \$3,375,763, in the form of charges for services, and \$36,972,531 in grants and contributions, are inadequate to support the cost of services. 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. State formula grants contributed \$61,632,137, 39.2 percent, of the \$157,248,182 total revenue. Funding from State formula grants increased \$326,616 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 2.6 percent for the 2012 tax year, the average daily attendance for the 2012-13 school year decreased by 112 students from 2011-12.

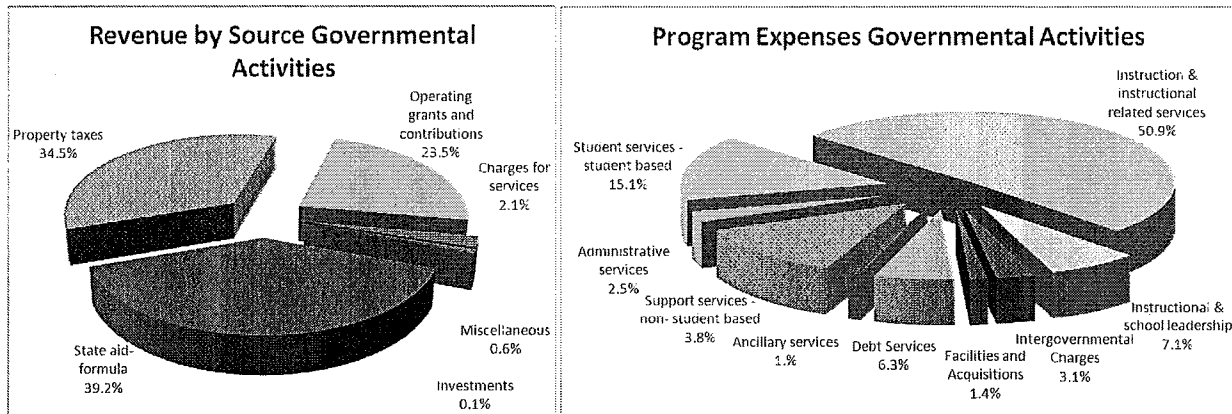
Local property tax revenue contributed an additional \$54,244,499 or 34.5 percent of the total revenue. Property taxes for general purposes increased \$1,780,062 due to the increased values. Property taxes levied for debt service increased \$219,088 due to the same increase in values but there was a slight decrease in the tax rate from \$0.32100 per \$100 of valuation to \$0.31518 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 \$36,972,531 or 23.5 percent of total revenue. During 2011-12, the District received \$2,650,210 in grant funds under the Education Jobs Act and another \$704,035 in remaining funds from the American Recovery and Reinvestment Act of 2009 (ARRA) which was no longer available in 2012-13 and resulted in the majority of the \$3,951,163 reduction in revenue.

Revenues identified as charges for services increased by \$807,895. The increase is primarily due to \$178,815 in tuition for District-run after-school programs, \$260,656 in increased revenue in the National Breakfast and Lunch fund, and inclusion of campus activity funds in the governmental activities statements.

Expenses for the District's governmental activities increased \$734,072 over last year. Due to the consolidation of schools and closing of eight campuses, a general compensation increase was given to the employees. Administration received a pay increase of 3 percent of the midpoint with all other employee groups receiving a 3.5 percent increase.

The charts on the following page 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 above chart of expenses and program revenues, but are included within the governmental activities revenue chart to illustrate their significance.



After two years of financial losses, the Board of Trustees voted on March 29, 2012, to close the employee child care center which had been accounted for as a business-type activity in an enterprise fund. Because of the cuts in State funding, the continuation of the resource-draining enterprise was deemed unfeasible.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Governmental Funds

At August 31, 2013, the District's governmental funds reported combined ending fund balances of \$41,587,173, a decrease of \$5,727,690 from the prior year. The decrease is due primarily to the expending of bond funds for capital projects. Restricted fund balances for capital projects decreased by \$4,503,881.

The general fund supports most of the District's educational program support operations. As of August 31, 2013, the fund balance for the general fund totaled \$32,913,938, decreasing \$1,992,055 from the year ended August 31, 2012. The unassigned portion of the fund balance decreased by \$102,168 to \$29,668,403, while non-spendable inventories and prepaid items decreased by \$117,839, and committed and assigned funds decreased by \$1,772,048, primarily due to the completion of major projects.

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. The first represents 25.8 percent of total fund expenditures, while the total fund balance represents 28.7 percent.

The fund balance of the National School Breakfast and Lunch Program remained stable. Expenditures exceeded revenues by \$31,496. The fund balance at year end totaled \$1,482,934 with \$150,453 invested in nonspendable inventories on hand.

Reserves in the debt service fund increased by \$357,443. The increase was due to a significant increase in prior year tax collections due to the settlement of a bankruptcy. The ending debt service reserve represents 21.5 percent of the annual debt service. In January 2013, the District issued \$9,635,000 in taxable refunding bonds to refinance a portion of the 2004 Unlimited Tax Refunding Bonds.

Proprietary Funds

An internal service fund is utilized to record costs associated with its 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 \$559,534. Fees paid to the third party administrator totaled \$98,647. Workers' compensation claims paid totaled \$297,918. Projected unpaid incurred claims of \$851,498 were accrued at August 31, 2013. Unemployment claims paid totaled \$146,863, a decrease of \$251,435 or 63 percent, over the prior year. Total claims expense decreased by \$251,435 from \$398,298 in 2011-12. Ending net position for the fund totaled \$505,840 or 59.9 percent of the accrued claims.

GENERAL FUND BUDGETARY HIGHLIGHTS

On August 23, 2012, the Board of Trustees for the District adopted the official budget which included annual operating budgets for the General Fund, National School Breakfast and Lunch Fund, and Debt Service Fund.

Original appropriations in the general fund totaled \$111,504,746. This reflected a \$1,237,965 reduction from the previous year. Revenues were estimated at \$110,209,684, \$371,442 more than 2011-12. The original budget anticipated that revenues would be short of covering appropriations by \$1,295,062. The beginning fund balance at budget adoption was projected at \$30,262,624. The actual beginning fund balance totaled \$34,905,993. The difference between projected and actual was due to the delay in construction, primarily at Indian Spring Middle School, which resulted in a carryover of \$3.6 million into the 2012-13 fiscal year as well as the carry forward of \$468,665 in outstanding purchase orders. Additionally, several E-rate projects were not undertaken due to delays in award notifications and school closures.

Other local revenues were amended upward by \$533,651, primarily for increased Student Health and Related Services (SHARS) revenues during the fiscal year and tuition charges not included in the original budget.

At year end, realized revenue exceeded budgeted estimates by \$698,159. \$530,006 of the increase was in the local property tax collections due to a higher collection of delinquent taxes than originally anticipated. State Foundation School Program revenues realized were \$931,181 lower than projected which was a result of decreases in average daily attendance. However, revenue recognized for on-behalf payments into the state's retirement system exceeded budgeted revenue by \$855,930. The remaining increase was a result of the increases in SHARS reimbursements and on-behalf payments for retirement costs.

Adopted general fund appropriations increased \$12,072,676 during the year. Most of the budget increase was to fund construction projects. The aforementioned \$3.4 million was rolled forward from 2011-12 and another \$5.1 million was budgeted for the wing addition at Cesar Chavez Middle School. Funding from this project came from the anticipated sale of the old University Middle School which was closed during consolidation. Funds, in the amount of \$0.8 million, from the sale of STARS and the old Alternative School were utilized to fund various summer maintenance projects. The Board also increased the budget \$0.5 million for renovations to the closed Doris Miller Elementary School to house the Greater Waco Advanced Manufacturing Academy and \$0.1 million for renovations to the Waco High Performing Arts Center. Additionally, \$0.7 million in committed and assigned fund balance were re-budgeted for bus purchases and other equipment purchases; \$0.3 million for a new security system at Waco High School; \$0.6 million in increased payments into the Tax Increment Fund which were partially offset with increased tax collections; \$0.2 million to fund two District-operated after-school programs; and the \$0.5 million in carryover purchase orders.

Final appropriations were under expended by \$8,587,971. This amount included \$2.4 million of unspent funds committed or assigned for facilities renovations and equipment replacement and \$0.7 million in encumbrances rolled forward into 2012-13. Dropped E-rate projects avoided \$0.4 million in expenditures and rate reductions and campus closures resulted in over \$1.0 million in utility savings. The remaining \$4.2 million of under-expenditure came from savings throughout the budget. Because of the closure of eight campuses due to consolidation, funds were generally underspent more than they historically have been.

Results of operations decreased the fund balance by \$3,274,844. However, the deficiency was partially offset by the sale of several closed properties and surplus equipment totaling \$1,282,789, resulting in a net decrease to fund balance of \$1,992,055.

CAPITAL ASSETS

The District's investment in capital assets for its governmental activities as of August 31, 2013 totaled \$220,613,378, net of accumulated depreciation of \$110,456,489. Capital assets, net of accumulated depreciation increased \$3,611,721 from the August 31, 2012 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, 2013	August 31, 2012
Land	\$ 9,743,801	\$ 10,181,519
Buildings and improvements	195,875,382	188,254,692
Furniture and equipment	13,298,451	15,052,956
Construction in progress	1,695,744	3,512,490
Total capital assets, net of accumulated depreciation	\$ <u>220,613,378</u>	\$ <u>217,001,657</u>

Major capital asset acquisitions for the current fiscal year included:

- ♦ \$6,620,802 in construction of a new classroom wing, choir room and technology lab at Cesar Chavez Middle School;
- ♦ \$2,273,542 in construction of a new science lab wing and library at Tennyson Middle School;
- ♦ \$1,695,744 in building renovations at Indian Spring Middle School;
- ♦ \$490,610 in renovations to the closed Doris Miller Elementary School for use as the Greater Waco Manufacturing Academy; and
- ♦ \$1,817,547 in other capitalized building renovations, vehicles, and furniture and equipment.

These acquisitions were offset by depreciation and the sale of surplus property, including Waco Independent School District Playhouse, STARS, and the old Alternative Campus. Additional information may be found in Note III-F, Capital Asset Activity, in the notes to the financial statements.

DEBT ADMINISTRATION

At August 31, 2013, the District had debt obligations totaling \$195,222,353. \$6,734,361 in bonds was retired during the 2012-13 fiscal year through scheduled debt service payments. Bond payments due within one year total \$6,610,000.

In January 2013, the District issued \$9,635,000 in taxable bonds to refund a portion of the Unlimited Tax Refunding Bonds, Series 2004. The refunding generated a present value of debt services savings as a percentage of bonds refunded of approximately 6.6 percent or \$696,817 which represents an estimated average annual savings of about \$87,000.

Debt Summary		
	Governmental Activities	
	August 31, 2013	August 31, 2012
General obligation bonds	\$ 191,215,000	\$ 198,280,000
Unamortized bond issuance premium	4,817,955	4,345,942
Unamortized bond refunding loss	(1,907,557)	(1,481,833)
Accumulated accretion	1,096,955	812,605
Total long-term debt	\$ <u>195,222,353</u>	\$ <u>201,956,714</u>

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

As the District began the 2013-14 budget development process, it was still struggling with the impact of a \$4.4 million annual loss in general operating revenue resulting from state funding reductions, as well as an additional loss of \$1.4 million in other state program allotments. With continued losses in average daily attendance, the District had consolidated schools, closing seven schools and eight buildings in the process.

However, for the first time in four years, funding prospects were positive. The judge, in the lawsuit filed against the State for Texas taxpayer and student fairness, handed down his decision on February 4, 2013. The four primary plaintiff groups won on most of their points. The 2012-13 biennial revenue exceeded the Comptroller's projection by at least \$9 billion and the State expected to close the 2012-13 biennium with a balance of \$8.8 billion with a balance of \$11.8 billion in its "Rainy Day Fund". Commencing the 83rd session, many legislators were publicly determined to restore funding to public education.

As a result of legislative action, public education funding increased by \$6.2 billion over 2011. However, that increase included funding for student growth and property value growth had reduced current law funding requirements by \$3.6 billion. Most of the cuts from the previous biennium were restored, not necessarily to those that lost funding. Funding elements included an increase in the basic allotment and the "Austin Yield" as well as a move away from target revenue.

Of the \$5.8 million annual revenue loss, the District recovered approximately \$3.4. While this recovery was negatively impacted by increased property values and declines in student population, those same property value increases generated an additional \$0.7 million in tax collections.

Although certified property values had risen 5.86 percent and 2.46 percent for the 2011 and 2012 tax years, respectively, value growth for the 2013 tax year was only 1.53 percent. The District's tax rate for maintenance and operations remained at \$1.04000 per \$100 of valuation. This is the highest rate we may levy without voter approval. The increase in property value is projected to generate an additional \$677,573 in maintenance and operations tax collections for general operations.

Since the District had, through consolidation and other reductions, made up most of its revenue losses, the Board of Trustees was able to approve salary increases and restore some of the previously cut employee benefits. Employees paid on the teacher schedule were given an average increase of 4 percent with other employee groups receiving an increase of 3 percent of the midpoint of their respective schedule. Additionally, stipends for teachers in critical shortage areas were increased in an effort to attract and retain quality teachers. The District also increased its contribution to health insurance by 9.9 percent, covering the employee's premium increase and restored sick leave to all full-time employees.

One of the casualties of the State's cuts to other program allotments was the District's full-day prekindergarten program. Loss of the \$0.9 million previously received under the Prekindergarten Expansion Grant had forced the District to return to the required half-day program in 2011-12. In a high poverty district like Waco, early childhood programs are critical to student success and the Board gave early direction to the administration that the reinstatement of the full-day program was a high priority. The increase in funding allowed for the reinstatement of that program, as well as the middle school theatre program. Increased revenue also funded musical instrument replacements, upgrades to the Waco High Performing Arts Center, expansion of the ATLAS advanced academics program into ninth grade, and other equipment and vehicle purchases throughout the District.

The District's annual debt service will decrease \$527,327 from last year's requirements. \$112,553 of the decrease is a result of the taxable refunding bonds issued in January, 2013. However, State funding through the existing debt and instructional facilities allotments is expected to decrease about \$518,058 due to property value increases and declining average daily attendance. As a result, the District's tax rate for interest and sinking decreased only slightly from \$0.31518 to \$0.31480 per \$100 of valuation. Existing debt service requirements will now remain fairly stable through 2022 before significantly decreasing.

Job growth, sales tax collections, and building permits over the past year all signal that the Texas economy continues to outpace the national economy. Texas total nonfarm employment increased by 274,200 jobs or 2.5 percent while the U.S. increased 1.7 percent. The Texas unemployment rate has been at or below the national rate for 83 consecutive months. Texas state sales tax receipts for November 2013 were 2.8 percent higher than for November of 2012 while motor vehicle sales and rental tax collections were up 11.9 percent. The increase was boosted by strong business spending in the oil/natural gas and manufacturing sectors and,

to a lesser extent, by retail sales. Building permits for single-family homes increased by 16 percent and those for multi-family buildings increased by 11 percent.

Although employment in the Waco Metropolitan Statistical Area (MSA) remained almost flat over the past year with only slight gains in the Central Texas region, the local unemployment rate of 5.8 percent continued to better both state and national rates. Locally, 2013 saw an increase of an estimated 564 jobs compared to 340 for 2012. Average hourly wages in the area run about 88 percent of the average in Texas and about 82 percent of the national average. However, the average salaries in education fare somewhat better running about 95 percent of those in the state and 86 percent nationally. Education and health care make up about 18 percent of local economy.

Major construction by the Texas Department of Transportation along the I-35 corridor continues to increase traffic and promote growth between Dallas and Austin. The District has sold four properties adjacent to the interstate including the property now occupied by the newly opened 120,000 square-foot H-E-B grocery store. The complex also includes an additional 20,000 square-foot retail shell. The District has also closed on the sale of property across the street for similar development. The development should continue to positively impact the local economy and property values.

Meanwhile, current year average daily attendance (ADA) projections are disquieting. Projections, based on the second six weeks, would indicate a decline of about 130 ADA. State revenue based on these projections would result in a loss of \$1.5 million. While some of the decline in attendance is due to the District's elimination of the three-year old prekindergarten program, most of the loss is once again at the high school level. The administration is currently conducting a phone survey, contacting high school students no longer in attendance, in an effort to determine causes for the decline. Concurrently, cost containment measures and staffing patterns will be reviewed prior to developing next year's budget allocations.

Legislative estimates indicate additional increased funding of \$1.5 million for the 2014-15 school year but, while increases in property values result in increased tax collections for the District, the increase negatively impacts the District's state revenue. Coupled with continued declines in enrollment, the District must be vigilant in containing spending.

In early 2014, Judge Dietz will re-hear testimony in the state funding lawsuit. A ruling is expected as early as March with a ruling on any appeal in late 2014, timely for legislative consideration in 2015.

REQUESTS FOR INFORMATION

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

Basic Financial Statements

Waco Independent School District
Statement of Net Position
August 31, 2013

Data Control Codes		Governmental Activities
	ASSETS	
1110	Cash and cash equivalents	\$ 46,186,359
1225	Property taxes receivable, net of allowance for uncollectibles of \$2,264,414	1,089,830
1240	Due from other governments	4,295,412
1250	Accrued interest receivable	5,334
1290	Other receivables	478,837
1310	Inventories	428,776
1410	Prepayments	2,843
	Capital assets, net of accumulated depreciation:	
1510	Land	9,743,801
1520	Buildings and improvements	195,875,382
1530	Furniture and equipment	13,298,451
1580	Construction in progress	1,695,744
1000	Total assets	<u>273,100,769</u>
	LIABILITIES	
2110	Accounts payable	6,483,846
2140	Accrued interest payable	398,966
2150	Payroll deductions and withholdings	126,349
2160	Accrued wages payable	1,024,490
2170	Due to fiduciary funds	51,220
2180	Due to other governments	17,382
2190	Due to student groups	8,966
2200	Accrued expenses	830,350
2300	Unearned revenue	759,006
	Noncurrent liabilities:	
2510	Due within one year	6,610,000
2510	Due after one year	188,612,353
2000	Total liabilities	<u>204,922,928</u>
	NET POSITION	
3200	Net investment in capital assets	29,784,107
3800	Restricted for debt service	2,187,110
3900	Unrestricted	36,206,624
3000	Total net position	<u>\$ 68,177,841</u>

Waco Independent School District
Statement of Activities
For the Year Ended August 31, 2013

Data Control Codes		1	Program Revenues		Net (Expense)
			3	4	Revenue and
			Charges for Services	Operating Grants and Contributions	Changes in Net Position
		Expenses			6
					Governmental Activities
Primary Government:					
	Governmental Activities:				
11	Instruction	\$ 70,548,505	\$ 1,014,343	\$ 14,239,233	\$ (55,294,929)
12	Instructional resource and media services	1,040,805	17,108	36,246	(987,451)
13	Curriculum and instructional staff development	6,884,856	-	4,636,586	(2,248,270)
21	Instructional leadership	2,693,158	10,127	480,904	(2,202,127)
23	School leadership	8,310,370	180,706	465,410	(7,664,254)
31	Guidance, counseling, and evaluation services	4,169,755	60,759	1,049,729	(3,059,267)
32	Social work services	362,398	-	89,192	(273,206)
33	Health services	948,578	-	129,448	(819,130)
34	Student transportation	3,080,299	-	181,580	(2,898,719)
35	Food services	10,231,923	748,295	9,449,747	(33,881)
36	Cocurricular/extracurricular activities	4,544,834	794,470	164,667	(3,585,697)
41	General administration	3,840,553	232,322	362,435	(3,245,796)
51	Plant maintenance and operations	14,898,553	107,856	555,674	(14,235,023)
52	Security and monitoring services	1,920,229	30,380	89,861	(1,799,988)
53	Data processing services	2,358,120	8,554	60,284	(2,289,282)
61	Community services	1,653,751	130,337	969,069	(554,345)
72	Interest on long-term debt	9,589,096	-	3,448,605	(6,140,491)
73	Bond issuance cost and fees	158,974	-	-	(158,974)
81	Facilities acquisition and construction	2,205,186	-	540,319	(1,664,867)
93	Payments to fiscal agents/member districts of shared services arrangements	156,879	40,506	23,542	(92,831)
95	Payments related to Juvenile Justice Alternative Education Program	556,650	-	-	(556,650)
97	Payments to tax increment zones	3,393,153	-	-	(3,393,153)
99	Other intergovernmental charges	597,698	-	-	(597,698)
	(TP) Total governmental activities	\$ 154,144,323	\$ 3,375,763	\$ 36,972,531	(113,796,029)

Data
Control
Codes

General revenues:

Taxes:

MT	Property taxes, levied for general purposes	41,675,687
DT	Property taxes, levied for debt service	12,568,812
GC	Grants and contributions not restricted	61,632,137
IE	Investment earnings	150,235
MI	Miscellaneous	873,017
Special items:		
SI	Gain on disposal of land, buildings, equipment	612,687
TR	Total general revenues and special items	117,512,575
CN	Change in net position	3,716,546
NB	Net position, beginning	64,035,393
PA	Prior period adjustment	425,902
NE	Net position, ending	\$ 68,177,841

Waco Independent School District
Balance Sheet
Governmental Funds
August 31, 2013

Data Control Codes	10 General Fund	24 National Breakfast & Lunch Fund	50 Debt Service Fund	60 Capital Projects Funds	Other Governmental Funds	Total Governmental Funds
ASSETS						
1110 Cash and cash equivalents	\$ 32,545,348	\$ 1,003,514	\$ 3,026,242	\$ 9,293,010	\$ 318,245	\$ 46,186,359
1220 Property taxes - delinquent	2,725,227	-	629,017	-	-	3,354,244
1230 Allowance for uncollectible taxes (Credit)	(1,841,472)	-	(422,942)	-	-	(2,264,414)
1240 Due from other governments	59,697	397,221	-	-	3,838,494	4,295,412
1250 Accrued interest receivable	5,334	-	-	-	-	5,334
1260 Due from other funds	8,547,709	666,095	450,714	-	502,837	10,167,355
1290 Other receivables	143,035	-	-	-	335,802	478,837
1310 Inventories	218,988	209,788	-	-	-	428,776
1410 Prepaid items	2,843	-	-	-	-	2,843
Total assets	<u>\$ 42,406,709</u>	<u>\$ 2,276,618</u>	<u>\$ 3,683,031</u>	<u>\$ 9,293,010</u>	<u>\$ 4,995,378</u>	<u>\$ 62,654,746</u>
LIABILITIES						
2110 Accounts payable	\$ 4,236,945	\$ 731,496	\$ -	\$ 188,680	\$ 1,312,748	\$ 6,469,869
2150 Payroll deductions and withholdings payable	126,349	-	-	-	-	126,349
2160 Accrued wages payable	984,662	2,853	-	-	36,975	1,024,490
2170 Due to other funds	3,020,917	-	-	5,808,203	2,739,504	11,568,624
2180 Due to other governments	790	-	-	-	16,592	17,382
2190 Due to student groups	8,966	-	-	-	-	8,966
2200 Accrued expenditures	-	-	-	-	119	119
2300 Unearned revenues	227,449	59,335	-	-	472,222	759,006
Total liabilities	<u>8,606,078</u>	<u>793,684</u>	<u>-</u>	<u>5,996,883</u>	<u>4,578,160</u>	<u>19,974,805</u>
DEFERRED INFLOWS OF RESOURCES						
2601 Unavailable revenues - property taxes	886,693	-	206,075	-	-	1,092,768
2600 Total deferred inflows of resources	<u>886,693</u>	<u>-</u>	<u>206,075</u>	<u>-</u>	<u>-</u>	<u>1,092,768</u>
Fund balances:						
Nonspendable fund balance:						
3410 Investments in inventory	218,988	150,453	-	-	-	369,441
3430 Prepaid items	2,843	-	-	-	-	2,843
Restricted fund balance:						
3450 Federal or state funds grant restriction	-	1,332,481	-	-	-	1,332,481
3470 Capital acquisition and contractual obligation	-	-	-	3,296,127	-	3,296,127
3480 Retirement of long-term debt	-	-	3,476,956	-	-	3,476,956
Committed fund balance:						
3510 Construction and other major improvements	1,108,390	-	-	-	-	1,108,390
3530 Capital expenditures for equipment	559,768	-	-	-	-	559,768
Assigned fund balance:						
3550 Construction and other major improvements	191,803	-	-	-	-	191,803
3570 Capital expenditures for equipment	486,908	-	-	-	-	486,908
3590 Other assigned fund balance	676,837	-	-	-	417,218	1,094,055
3600 Unassigned fund balance	29,668,401	-	-	-	-	29,668,401
Total fund balances	<u>32,913,938</u>	<u>1,482,934</u>	<u>3,476,956</u>	<u>3,296,127</u>	<u>417,218</u>	<u>41,587,173</u>
Total liabilities and fund balances	<u>\$ 42,406,709</u>	<u>\$ 2,276,618</u>	<u>\$ 3,683,031</u>	<u>\$ 9,293,010</u>	<u>\$ 4,995,378</u>	<u>\$ 62,654,746</u>

Waco Independent School District
**Reconciliation of Fund Balances of Governmental Funds
to Net Position of Governmental Activities**
August 31, 2013

Data Control Codes			
3600	Fund balances - total governmental funds (Exhibit C-1)	\$	41,587,173
	Amounts reported for governmental activities in the statement of net position (Exhibit A-1) are different because:		
1	Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. At the beginning of the year, the cost of these assets was \$321,141,503 and the accumulated depreciation was \$104,139,846.		217,262,427
2	Long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore, are not reported as liabilities in the funds.		(202,392,036)
3	Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2013 capital outlays and debt principal payments is to increase net position.		18,478,583
4	The 2013 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.		(8,356,916)
5	The internal service fund is used by management to charge the costs of workers' compensation and unemployment claims to individual funds. The assets and liabilities of the internal service fund is included in governmental activities in the statement of net position.		505,840
6	Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue and eliminating interfund transactions. The net effect of these reclassifications and recognitions is to increase net position.		1,092,770
	Net position of governmental activities (Exhibit A-1)	\$	<u>68,177,841</u>

Waco Independent School District
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended August 31, 2013

Data Control Codes		10	24	50	60		98
		General Fund	National Breakfast & Lunch Fund	Debt Service Fund	Capital Projects Funds	Other Governmental Funds	Total Governmental Funds
REVENUES							
5700	Local and intermediate sources	\$ 43,625,576	\$ 748,621	\$ 12,881,864	\$ 13,462	\$ 2,613,121	\$ 59,882,644
5800	State program revenues	65,454,007	107,895	3,448,605	-	2,329,192	71,339,699
5900	Federal program revenues	2,635,024	9,008,979	-	-	14,649,474	26,293,477
5020	Total revenues	111,714,607	9,865,495	16,330,469	13,462	19,591,787	157,515,820
EXPENDITURES							
Current:							
6011	Instruction	55,596,266	-	-	-	11,138,135	66,734,401
6012	Instructional resources and media services	857,605	-	-	-	17,418	875,023
6013	Curriculum and instructional staff development	2,406,320	-	-	-	4,475,257	6,881,577
6021	Instructional leadership	2,303,890	-	-	-	281,436	2,585,326
6023	School leadership	7,950,953	-	-	-	280,648	8,231,601
6031	Guidance, counseling, and evaluation services	3,456,338	-	-	-	690,038	4,146,376
6032	Social work services	286,766	-	-	-	75,632	362,398
6033	Health services	920,436	-	-	-	6,205	926,641
6034	Student transportation services	2,819,384	-	-	-	-	2,819,384
6035	Food services	-	9,617,290	-	-	612,248	10,229,538
6036	Cocurricular/extracurricular activities	3,521,421	-	-	-	408,800	3,930,221
6041	General administration	3,700,635	-	-	-	9,684	3,710,319
6051	Plant maintenance and operations	14,410,640	279,701	-	-	32,028	14,722,369
6052	Security and monitoring services	1,866,864	-	-	-	36,238	1,903,102
6053	Data processing services	2,587,351	-	-	-	-	2,587,351
6061	Community services	649,507	-	-	-	952,250	1,601,757
Debt service:							
6071	Principal	740,000	-	6,315,000	-	-	7,055,000
6072	Interest	222,967	-	9,019,148	-	-	9,242,115
6073	Bond issuance cost and fees	2,900	-	156,074	-	-	158,974
Capital outlay:							
6081	Facilities acquisition and construction	6,718,785	-	-	4,508,397	540,319	11,767,501
Intergovernmental:							
6093	Payments to fiscal agent/member districts of shared services arrangements	112,744	-	-	-	44,135	156,879
6095	Payments to Juvenile Justice Alternative Education Program	556,650	-	-	-	-	556,650
6097	Payments to tax increment zone	2,703,331	-	689,822	-	-	3,393,153
6099	Other intergovernmental charges	597,698	-	-	-	-	597,698
6030	Total expenditures	114,989,451	9,896,991	16,180,044	4,508,397	19,600,471	165,175,354
1100	Excess (deficiency) of revenues over (under) expenditures	(3,274,844)	(31,496)	150,425	(4,494,935)	(8,684)	(7,659,534)
OTHER FINANCING SOURCES (USES)							
7911	Capital related debt issued (regular bonds)	-	-	9,635,000	-	-	9,635,000
7912	Sale of real and personal property	1,282,789	25,083	-	-	-	1,307,872
7915	Transfer in	-	-	8,946	-	-	8,946
7916	Premium or discount on issuance of bonds	-	-	856,820	-	-	856,820
7917	Prepaid interest	-	-	32,868	-	-	32,868
8911	Transfers out	-	-	-	(8,946)	-	(8,946)
8949	OTHER FINANCING SOURCES (USES)	-	-	(10,326,616)	-	-	(10,326,616)
	Total other financing sources (uses)	1,282,789	25,083	207,018	(8,946)	-	1,505,944
1200	Net change in fund balances	(1,992,055)	(6,413)	357,443	(4,503,881)	(8,684)	(6,153,590)
0100	Fund balances, beginning	34,905,993	1,489,347	3,119,513	7,800,008	425,902	47,740,763
3000	Fund balances, ending	\$ 32,913,938	\$ 1,482,934	\$ 3,476,956	\$ 3,296,127	\$ 417,218	\$ 41,587,173

See accompanying notes to financial statements

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, 2013

Net changes in fund balances - total governmental funds (Exhibit C-3)	\$ (6,153,590)
Amounts reported for governmental activities in the statement of activities (Exhibit B-1) are different because:	
Governmental fund report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. The amount by which capital asset additions exceed depreciation in the current period is an increase to net position.	4,306,906
In the statement of activities, only the gain or loss on the sale of capital assets is reported. However, in the governmental funds, the proceeds from the sale increases financial resources. Thus, the change in net position differs from the change in fund balance by the net book value of the capital assets sold. The net effect is a decrease in net position.	(695,185)
The issuance of long-term debt (e.g. bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas, these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	6,509,947
The District uses internal service funds to charge the costs of certain activities, such as self-insurance, to appropriate functions in other funds. The net income of internal service funds is reported with governmental activities. The net effect of this consolidation is to increase net position.	16,105
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue and adjusting current year revenue to show the revenue earned from the current year's tax levy. The net effect of these reclassifications and recognitions is to decrease net position.	(267,637)
Changes in net position of governmental activities (Exhibit B-1)	\$ <u><u>3,716,546</u></u>

Waco Independent School District
Statement of Net Position
Proprietary Fund
August 31, 2013

	Governmental Activities
	Internal Service Fund
ASSETS	
Current assets:	
Due from other funds	\$ 1,350,049
Total assets	<u>1,350,049</u>
LIABILITIES	
Current liabilities:	
Accounts payable	13,978
Accrued expenses	<u>830,231</u>
Total liabilities	<u>844,209</u>
NET POSITION	
Unrestricted net position	<u>505,840</u>
Total net position	<u>\$ 505,840</u>

Waco Independent School District
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Fund
Year Ended August 31, 2013

	<u>Governmental Activities</u>
	<u>Internal Service Fund</u>
Operating revenues:	
Assessments to other funds	\$ 559,534
Total operating revenues	<u>559,534</u>
Operating expenses:	
Professional and contracted services	98,647
Claims expense	<u>444,782</u>
Total operating expenses	<u>543,429</u>
Change in Net Position	16,105
Total net position, beginning	<u>489,735</u>
Total net position, ending	<u><u>\$ 505,840</u></u>

Waco Independent School District

Statement of Cash Flows
Proprietary Fund

For the Year Ended August 31, 2013

	<u>Governmental Activities</u>
	<u>Internal Service Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from assessments to other funds	\$ 543,429
Cash payments for insurance claims	(444,782)
Cash payments for other operating expenses	<u>(98,647)</u>
Net cash provided by operating activities	<u>-</u>
Net increase in cash and cash equivalents	-
Cash and cash equivalents at beginning of year	<u>-</u>
Cash and cash equivalents at end of year	<u>\$ -</u>
 Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 16,105
Effects of increases and decreases in current assets and liabilities:	
Decrease in due from other funds	(8,816)
Decrease in accounts payable	(32,626)
Increase in claims liability	<u>25,337</u>
Net cash provided by operating activities	<u>\$ -</u>

Waco Independent School District
Statement of Fiduciary Net Position
Fiduciary Funds
August 31, 2013

	<u>Private Purpose Trust Fund</u>	<u>Agency Fund</u>
ASSETS		
Cash and cash equivalents	\$ 14,269	\$ 10,195
Accrued interest	20	-
Due from other funds	<u>15,278</u>	<u>35,942</u>
Total assets	<u>29,567</u>	<u>46,137</u>
LIABILITIES		
Accounts payable	-	26,239
Due to student groups	<u>-</u>	<u>19,898</u>
Total liabilities	<u>-</u>	<u>\$ 46,137</u>
NET POSITION		
Restricted for scholarships	<u>29,567</u>	
Total net position	<u>\$ 29,567</u>	

Waco Independent School District
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Year Ended August 31, 2013

	<u>Private Purpose Trust Fund</u>
ADDITIONS	
Contributions:	
Donations	\$ <u>15,000</u>
Total contributions	<u>15,000</u>
DEDUCTIONS	
Scholarships awarded	<u>-</u>
Total deductions	<u>-</u>
Change in net position	15,000
Net position, beginning	<u>14,567</u>
Net position, ending	<u>\$ <u>29,567</u></u>

Waco Independent School District
Notes to the Financial Statements
For the Year Ended August 31, 2013

I. Summary of Significant Accounting Policies

Waco Independent School District (the "District") is a public educational agency operating under the applicable laws and regulations of the State of Texas. It is governed by a seven member Board of Trustees (the "Board") elected by registered voters of the District. The District prepares its basic financial statements in conformity with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board and it complies with the requirements of the appropriate version of Texas Education Agency's *Financial Accountability System Resource Guide* (the "Resource Guide") and the requirements of contracts and grants of agencies from which it receives funds.

A. Reporting Entity

The Board of Trustees (the "Board") is elected by the public and has the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has primary responsibility for fiscal matters. Therefore, the District is a financial reporting entity as defined by the Governmental Accounting Standards Board ("GASB") in its Statement No. 14, *The Financial Reporting Entity*. The Waco Independent School District Public Facilities Corporation is included as a blended component unit within the reporting entity, as further discussed in Note 2 below. The District receives funding from local, state and federal government sources and must comply with the requirements of these funding source entities.

B. Government-wide and Fund 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 is 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.

The fund financial statements provide reports on the financial condition and results of operations for three fund categories - governmental, proprietary, and fiduciary. Since the resources in the fiduciary funds cannot be used for District operations, they are not included in the government-wide statements. The District considers some governmental funds major and reports their financial condition and results of operations in a separate column.

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.

Waco Independent School District

Notes to the Financial Statements For the Year Ended August 31, 2013

B. Government-wide and Fund Financial Statements (continued)

Interfund activities between governmental funds, and between governmental funds and proprietary funds, appear as due to/due from on the Governmental Fund Balance Sheet and Proprietary Fund Statement of Net Position and as other resources and other uses on the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance and on the Proprietary Fund Statement of Revenues, Expenses and Changes in Fund Net Position. All interfund transactions between governmental funds and between governmental funds and internal service funds are eliminated on the government-wide statements. Interfund activities between governmental funds and fiduciary funds remain as due to/due from on the government-wide Statement of Activities.

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

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. With this measurement focus, only current assets, current liabilities and fund balances are included on the balance sheet. Operating statements of these funds present net increases and decreases in current assets (i.e., revenues and other financing sources and expenditures and other financing uses).

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become 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. The District considers all revenues available if they are collectible within 60 days after year end. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest and principal on long-term debt, which is recognized when due. Expenditures related to claims and judgments are recognized when the obligations are expected to be liquidated with expendable, available financial resources.

Revenues from local sources consist primarily of property taxes. Both property tax revenues and revenues received from the State are recognized under the "susceptible to accrual" concept, that is, when they are both measurable and available. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant. Accordingly, when such funds are received, they are recorded as 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.

The Proprietary Fund Types and Fiduciary Funds are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. The District applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless these pronouncements conflict or contradict GASB pronouncements. 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 net investment in capital assets, restricted net position, and unrestricted net position. Agency funds utilize the accrual basis of accounting but do not have a measurement focus as they report only assets and liabilities.

Waco Independent School District
Notes to the Financial Statements
For the Year Ended August 31, 2013

D. Fund Accounting

The District's accounts are organized into funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing 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, or designated for, child nutrition programs 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 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 Funds 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 in a custodial capacity in agency funds. The Agency Funds include activity funds of student groups, a regional purchasing cooperative, and regional administration for University Interscholastic League (UIL) athletics. Since agency funds are custodial in nature, they do not involve the measurement of operations.

E. Other Accounting Policies

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.

Waco Independent School District

**Notes to the Financial Statements
For the Year Ended August 31, 2013**

E. Other Accounting Policies (continued)

2. Investments -- Investments are stated at fair value, 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. 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 available financial resources.
4. Inventories and prepaid items -- The District generally reports inventories of supplies using the first-in/first-out 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.

5. Capital assets -- Capital assets, which include land, buildings, furniture and equipment, are reported in the government-wide financial statements. Capital assets are 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. Such assets are recorded at historical cost or estimated historical cost, if purchased or constructed. Donated capital assets are recorded at estimated market value at date of donation.

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.

Buildings and improvements, furniture and 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
Furniture and equipment	5 - 25
Vehicles	8 - 10

6. 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.
7. 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, as well as issuance costs, 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. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

Waco Independent School District
Notes to the Financial Statements
For the Year Ended August 31, 2013

E. Other Accounting Policies (continued)

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 on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

8. Fund balances – governmental funds -- In the fund financial statements, fund balances in governmental funds are classified as follows:

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

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

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

Assigned – Represents amounts, which the District intends to use for a specific purpose, 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 Superintendent 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 – 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 have 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 Superintendent is authorized to assign a portion of the fund balance, not to exceed one percent of the annual operating expenditures. 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.

Waco Independent School District

Notes to the Financial Statements For the Year Ended August 31, 2013

E. Other Accounting Policies (continued)

9. Blended component unit -- Generally accepted accounting principles require financial statements to present the government and its component units, entities for which the government is considered financially accountable. Based on these criteria, the Waco Independent School District Public Facilities Corporation (PFC) has been included as a blended component unit. Blended component units, although legally separate entities, are, in substance, part of the government's operations and, therefore, data from these units are combined with data of the primary government. 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. Annual lease payments approximate debt service requirements for the general obligation bonds. In addition, the District contributed \$8,539,000 toward the construction of the stadium.
10. Data Control Codes -- The Data Control Codes refer to the account code structure prescribed by the TEA in the *Financial Accountability System Resource Guide*. TEA requires school districts to display these codes in the financial statements filed with the Agency to ensure accuracy in building a statewide data base for policy development and funding plans.

II. Stewardship, Compliance, and Accountability

A. Budgetary Data

The official budget was prepared for adoption for the General Fund, Debt Service Fund and the National School Breakfast and Lunch Program Fund (which is included in the Special Revenue funds). The budget is prepared using the modified accrual basis of accounting.

The following procedures are followed in establishing the budgetary data reflected in the general-purpose financial statements:

1. By August 20, the District prepares a proposed operating budget for the next succeeding fiscal year beginning September 1. The operating budget includes proposed expenditures and the means of financing them.
2. 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.
3. Prior to September 1, the budget is legally adopted through passage of a resolution by the Board. The budget is prepared and approved at the fund and function levels to comply with the State's legal level of control mandates. Once a budget is approved, it can only be amended at the function and fund level by approval of the Board. Amendments are presented to the Board at its regular meetings. 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. Consistent with the prior year, funds received through the Education Jobs Bill were included in the original general fund budget, amended out and accounted for in a special revenue fund. Because the District has a policy of careful budgetary control, other amendments were necessary during the year. The Board made supplemental budgetary appropriations throughout the year.
4. The District is required to present the adopted and final amended budgeted revenues and expenditures for each of these funds. The District compares the final amended budget to actual revenues and expenditures. The General Fund Budget report appears in Exhibit G-1 and the other two reports are in Exhibit J-3 and J-4. All budget appropriations lapse at year-end.

Encumbrance accounting is employed in governmental funds. Encumbrances outstanding at year-end are reflected in the appropriate restricted, committed, or assigned fund balance classifications and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

Waco Independent School District

**Notes to the Financial Statements
For the Year Ended August 31, 2013**

A. Budgetary Data (continued)

5. 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 and to ensure that resources were obtained and used in accordance with other finance-related legal or contractual requirements. Specific projects are individually authorized by the Board of Trustees for construction funded from proceeds of long-term debt financing

B. Excess of Expenditures over Appropriations

Functional expenditures did not exceed appropriations for the year ended August 31, 2013.

III. Detailed Notes on All Funds and Account Groups

A. Deposits and Investments

1. District Policies and Legal and Contractual Provisions Governing Deposits

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 on that date amounted to \$27,499,699 which was secured by collateral pledged and FDIC insurance.

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, 2013, the District's cash and investment balances were as follows:

	Total Fair Value	Governmental Activities	Fiduciary Funds
Cash and cash equivalents:			
Cash in bank or on hand	\$ 17,435,110	\$ 17,424,914	\$ 10,195
Cash equivalents:			
Certificates of deposit	1,006,269	992,000	14,269
Insured Cash Shelter	9,071,283	9,071,283	-
Money market accounts	10,012,332	10,012,332	-
Public funds investment pools	8,685,830	8,685,830	-
Total cash equivalents	28,775,714	28,761,445	14,269
Total deposits and investments	\$ 46,210,824	\$ 46,186,359	\$ 24,464

Waco Independent School District
Notes to the Financial Statements
For the Year Ended August 31, 2013

A. Deposits and Investments (continued)

2. A summary of investment accounts are as follows:

Certificates of Deposit (CD) – The District has multiple CD's at various banks. The last of the CDs for bond proceeds had matured at year end. The remaining CDs are fiduciary investments and are either FDIC insured or collateralized through the District's depository bank.

Insured Cash Shelter – Funds in the Insured Cash Shelter are FDIC insured upon deposit at participating program institutions up to \$10,000,000. 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 Liquidity Corporate Fund, which is reported at fair value.

Money Market Accounts – Funds in the Money Market accounts are collateralized through the District's depository bank or by a letter of credit.

Texas CLASS – Texas CLASS is a government investment pool that invests only in securities allowed by the Texas Public Funds 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 Ratings Services. The public funds investment pool 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 (the 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.

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.

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 markets the pool under "TexasDAILY Fund" which invests only in authorized investments under the Public Funds Investment Act with weighted average maturities which cannot exceed 60 days. The "Texas DAILY Fund" operates consistent with the SEC's Rule 2a-7 of the Investment Company Act of 1940. The "Texas DAILY Fund" uses amortized cost rather than market value to report net assets to compute share prices.

Waco Independent School District
Notes to the Financial Statements
For the Year Ended August 31, 2013

2. Deposits and Investments (continued)

3. The specific risk of investments are as follows:

Credit Risk -- It is the District's policy to limit its investment in a manner that ensures the preservation of capital in the overall portfolio. Specifically, repurchase agreements must be secured by obligations of the United States or its agencies, commercial paper must be rated not less than 'A-1' or 'P-1', no-load mutual funds must be rated not less than 'AAA' or its equivalent, and public funds investment pools must be continuously rated no lower than 'AAA' or 'AAAm' or at an equivalent rating. At August 31, 2013, MBIA, TexPool, TexStar, Lone Star, and Texas Term Daily are rated 'AAAm' by Standard and Poor's and Texas Term Fixed Securities are rated 'AAAF'.

Custodial Credit Risk for Investments -- To limit the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in possession of an outside party the District requires counterparties to register the securities in the name of the district and hand them over for safekeeping with the District's designated agent. All of the securities are in the District's name and held by the District or its agent.

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

Interest Rate Risk -- To limit the risk that changes in interest rates will adversely affect the fair value of investments, the District manages its exposure to declines in fair values by limiting the maturity of its investment portfolio. The term of any collateralized mortgage obligation is limited to ten years, repurchase agreements may not exceed 90 days, banker's 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. The maximum allowable stated maturity of any other individual investment owned by the District cannot exceed two years.

4. Weighted average maturity of investments were as follows:

Waco Independent School District

**Notes to the Financial Statements
For the Year Ended August 31, 2013**

	Fair Value	Weighted Average Maturity (in Days)
Cash equivalents:		
Fiduciary Funds	14,269	733
Insured Cash Shelter	9,071,283	1
Money market accounts	10,012,332	1
Public funds investment pools:		
Lone Star Investment Pool (Lone Star)	1,048,355	1
Texas CLASS	1,592,026	1
Texas Local Government Investment Pool (TexPool)	3,800,355	1
Texas Short Term Asset Reserve Fund (TexStar)	177,044	1
Texas TERM Local Government Investment Pool (TexasDAILY)	3,060,050	1
Total deposits and investments	<u>\$ 28,775,714</u>	
Portfolio weighted average maturity		1
Portfolio weighted average maturity excluding capital projects funds		1

B. Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the District in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available (1) when they become due or past due and receivable within the current period and (2) when they are expected to be collected during a 60-day period after the close of the school fiscal year.

The certified taxable value at January 1, 2012, on which the 2012 levy was based, was \$4,040,822,252. The District's maintenance and operations rate levied in 2012 was \$1.040 per \$100 of valuation which was the maximum rate allowed under new 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 2012 was \$0.31518 per \$100 of valuation.

C. Delinquent Taxes Receivable

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.

D. 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, 2013, consisted of the following amounts:

Waco Independent School District

**Notes to the Financial Statements
For the Year Ended August 31, 2013**

<u>Funds</u>	<u>Receivable</u>	<u>Payable</u>
General fund	\$ 8,547,709	\$ 3,020,917
National School Breakfast and Lunch fund	666,095	-
Debt service fund	450,714	-
Capital projects funds	-	5,808,203
Other non-major governmental funds	502,837	2,739,504
Internal service fund	1,350,049	-
Private purpose trust fund	15,278	-
Agency funds	35,942	-
	<u>\$ 11,568,624</u>	<u>\$ 11,568,624</u>

Waco Independent School District

**Notes to the Financial Statements
For the Year Ended August 31, 2013**

E. Unavailable and Unearned Revenue

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. Unavailable and unearned revenue at August 31, 2013 consisted of the following:

	General Fund	National School Lunch and Breakfast Fund	Debt Service Fund	Other Governmental Funds	Total
Unavailable:					
Delinquent property taxes	\$ 886,689	\$ -	\$ 206,075	\$ -	\$ 1,092,764
Total unavailable revenues	<u>886,689</u>	<u>-</u>	<u>206,075</u>	<u>-</u>	<u>1,092,764</u>
Unearned:					
State revenue	227,449	-	-	-	227,449
Grant draw downs received prior to meeting all eligibility requirements:					
USDA Commodities	-	59,335	-	-	59,335
Other federal programs	-	-	-	528	528
State programs:					
Advanced Placement Incentives	-	-	-	26,554	26,554
State Instructional Materials Allotment	-	-	-	6,975	6,975
TWC Apprenticeship	-	-	-	36,975	36,975
Texas Ready to Read	-	-	-	8,470	8,470
Challenge Academy	-	-	-	108,402	108,402
Regional Day School for the Deaf	-	-	-	31,660	31,660
Foundation Grants	-	-	-	238	238
Local grants	-	-	-	252,420	252,420
Total unearned revenues	<u>227,449</u>	<u>59,335</u>	<u>-</u>	<u>472,222</u>	<u>759,006</u>
Total unearned and unavailable revenues	<u>\$ 1,114,138</u>	<u>\$ 59,335</u>	<u>\$ 206,075</u>	<u>\$ 472,222</u>	<u>\$ 1,851,770</u>

Waco Independent School District

**Notes to the Financial Statements
For the Year Ended August 31, 2013**

F. Capital Asset Activity

Capital asset activity for the District for the year ended August 31, 2013 was as follows:

	Balance September 1, 2012	Additions	Deletions	Reclassifications	Balance August 31, 2013
<i>Capital assets, not being depreciated:</i>					
Land	\$ 10,181,519	\$ -	\$ (437,718)	\$ -	\$ 9,743,801
Construction in progress	3,512,490	11,309,205	-	(13,125,951)	1,695,744
Total capital assets, not being depreciated	<u>13,694,009</u>	<u>11,309,205</u>	<u>(437,718)</u>	<u>(13,125,951)</u>	<u>11,439,545</u>
<i>Capital assets, being depreciated:</i>					
Buildings and improvements	278,108,250	-	(2,160,822)	13,125,951	289,073,379
Furniture, equipment, and vehicles	29,339,244	1,354,617	(136,918)	-	30,556,943
Total capital assets, being depreciated	<u>307,447,494</u>	<u>1,354,617</u>	<u>(2,297,740)</u>	<u>13,125,951</u>	<u>319,630,322</u>
Less accumulated depreciation for:					
Buildings and improvements	89,853,558	5,272,895	(1,928,456)	-	93,197,997
Furniture, equipment, and vehicles	14,286,288	3,084,021	(111,817)	-	17,258,492
Total accumulated depreciation	<u>104,139,846</u>	<u>8,356,916</u>	<u>(2,040,273)</u>	<u>-</u>	<u>110,456,489</u>
Total capital assets, being depreciated, net	<u>203,307,648</u>	<u>(7,002,299)</u>	<u>(257,467)</u>	<u>13,125,951</u>	<u>209,173,833</u>
Governmental activities capital assets, net	<u>\$ 217,001,657</u>	<u>\$ 4,306,906</u>	<u>\$ (695,185)</u>	<u>\$ -</u>	<u>\$ 220,613,378</u>

Depreciation expense was charged to functions of the District as follows:

Function	Description	Amount
11	Instruction	\$ 3,829,427
12	Instructional resources and media services	165,943
13	Curriculum and instructional staff development	15,700
21	Instructional leadership	1,080,154
23	School leadership	80,218
31	Guidance, counseling, and evaluation services	24,023
33	Health services	22,098
34	Student transportation	632,122
35	Food services	359,153
36	Extracurricular activities	654,936
41	General administration	136,711
51	Plant maintenance and operations	186,751
52	Security and monitoring services	37,970
53	Data processing services	191,439
61	Community services	52,155
81	Facilities acquisition and construction	<u>1,860,116</u>
Total depreciation expense - governmental activities		<u>\$ 9,328,916</u>

Waco Independent School District
Notes to the Financial Statements
For the Year Ended August 31, 2013

G. Long-Term Debt

Long-term debt consists of bonded indebtedness and capital leases. The District issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities and enters into capital leases to provide funds for the acquisition of various types of equipment.

The following is a summary of changes in long-term debt for the year ended August 31, 2013.

	Balance September 1, 2012	Increases	Decreases	Balance August 31, 2013	Due Within One Year
Bonds payable:					
General obligation bonds, maintenance tax notes and lease revenue bonds	\$ 198,280,000	\$ 9,635,000	\$ (16,700,000)	\$ 191,215,000	\$ 6,610,000
Deferred amounts:					
For issuance premiums	4,345,942	856,820	(384,807)	4,817,955	-
On refunding	(1,481,832)	(681,616)	255,891	(1,907,557)	-
Accumulated accretion	812,605	284,350	-	1,096,955	-
Total long-term debt payable	\$ 201,956,715	\$ 10,094,555	\$ (16,828,916)	\$ 195,222,353	\$ 6,610,000

General obligation debt at August 31, 2013, is comprised of the following issues:

\$18,500,000 Schoolhouse building bonds, series 2001 due in annual installments of \$1,480,000 and \$1,530,000 through August 2015; interest at 5.50%	\$ 3,010,000
\$14,234,993 Unlimited tax refunding bonds, series 2004 due in an annual installment of \$1,350,000 in February 2014; interest at 3.7%	1,350,000
\$4,695,000 Unlimited tax refunding bonds, series 2006 due in annual installments of \$40,000 to \$2,025,000 through August 2022; interest at 4.00%	4,375,000
\$132,670,000 Unlimited tax school building and refunding bonds, series 2008 due in annual installments of \$2,480,000 to \$7,965,000 through August 2038; interest at 4.00% to 5.25%	117,000,000
\$45,500,000 Unlimited tax school building bonds, series 2009 due in annual installments of \$60,000 to \$3,630,000 through August 2038; interest at 3.00% to 5.05%	45,185,000
\$7,575,000 Unlimited tax refunding bonds, series 2010 due in annual installments of \$110,000 to \$1,795,000 through August 2020; interest at 2.00% to 3.25%	7,135,000
\$9,635,000 Unlimited tax refunding bonds, series 2013 due in annual installments of \$50,000 to \$1,730,000 through February 2020; interest at .280% to 4%.	9,460,000
Total general obligation bonds	187,515,000
\$4,300,000 Lease revenue bonds, series 1999, due in annual installments of \$200,000 to \$345,000 through October 2019; interest at 5.50%	2,055,000
\$4,750,000 Maintenance tax notes, series 2006 due in annual installments of \$445,000 to \$570,000 through August 2016; interest at 4.25% to 5.00%	1,645,000
Total long-term debt	\$ 191,215,000

G. Long-Term Debt (continued)

Waco Independent School District

Notes to the Financial Statements For the Year Ended August 31, 2013

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
2014	\$ 5,835,000	\$ 8,971,821	\$ 14,806,821
2015	6,030,000	8,747,119	14,777,119
2016	5,335,000	9,360,969	14,695,969
2017	6,300,000	8,386,081	14,686,081
2018	6,510,000	8,189,606	14,699,606
2019-2023	31,405,000	40,170,381	71,575,381
2024-2028	32,110,000	28,777,563	60,887,563
2029-2033	41,270,000	19,614,425	60,884,425
2034-2038	52,720,000	8,164,500	60,884,500
	<u>187,515,000</u>	<u>\$ 140,382,465</u>	<u>\$ 327,897,465</u>
Less interest accretion in future years	<u>2,296,948</u>		
Total principal due as of August 31, 2013	<u>\$ 185,218,052</u>		

There are a number of limitations and restrictions contained in the general obligation bond indenture. The District is in compliance with all significant limitations and restrictions at August 31, 2013.

Summary information for the capital appreciation bonds is as follows:

Series	Original Amount Outstanding	Accreted Value August 31, 2013
Unlimited Tax Refunding Bonds, Series 2006	\$ 422,085	\$ 559,511
Unlimited Tax School Building Bonds, Series 2009	4,535,012	5,439,058
Unlimited Tax Refunding Bonds, Series 2010	679,001	749,482
Total	<u>\$ 5,636,098</u>	<u>\$ 6,748,051</u>

Debt service requirements for lease revenue bonds and maintenance tax notes, funded through the General Fund are as follows:

Year Ended August 31,	Principal	Interest	Total
2014	\$ 775,000	\$ 188,400	\$ 963,400
2015	810,000	148,125	958,125
2016	845,000	105,912	950,912
2017	290,000	61,875	351,875
2018-2020	<u>980,000</u>	<u>82,775</u>	<u>1,062,775</u>
Totals	<u>\$ 3,700,000</u>	<u>\$ 587,087</u>	<u>\$ 4,287,087</u>

The District refunds bonds to achieve estimated present value savings. Proceeds from refunded bonds are placed in irrevocable trusts for the purpose of generating funds for all future debt service payments. Accordingly, neither the trust account assets nor liabilities for the defeased bonds are included in the District's financial statements. On August 31, 2013, \$32,680,000 of bonds considered defeased are still outstanding.

Waco Independent School District

Notes to the Financial Statements For the Year Ended August 31, 2013

H. Defined Benefit Pension Plan

Plan Description. The District contributes to the Teacher Retirement System of Texas (TRS), a cost-sharing multiple employer defined benefit pension plan. TRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems of Texas. It operates primarily under the provisions of the Texas Constitution, Article XVI, Sec. 67, and Texas Government Code, Title 8, Subtitle C. TRS also administers proportional retirement benefits and service credit transfer under Texas Government Code, Title 8, Chapters 803 and 805, respectively. The Texas state legislature has the authority to establish and amend benefit provisions of the pension plan and may, under certain circumstances, grant special authority to the TRS Board of Trustees.

TRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report may be obtained by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701; by calling the TRS Communications Department at 1-800-223-8778; or by downloading the report from the TRS Internet website, www.trs.state.tx.us, under the TRS Publications heading.

Funding Policy. State law provides for a member contribution rate of 6.40% for fiscal years 2013, 2012, and 2011, and a state contribution rate of 6.40% for fiscal year 2013, 6.0% for fiscal year 2012, and 6.644% for fiscal year 2011. In certain instances, the reporting district is required to make all or a portion of the state's 6.4% contribution. Contribution requirements are not actuarially determined but are legally established each biennium pursuant to the following state funding policy: (1) The state constitution requires the legislature to establish a member contribution rate of not less than 6.0% of the member's annual compensation and a state contribution rate of not less than 6.0% and not more than 10.0% of the aggregate annual compensation of all members of the system during that fiscal year; (2) A state statute prohibits benefit improvements or contribution reductions if, as a result of a the particular action, the time required to amortize TRS's 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.

State contributions TRS made on behalf of the District's employees for the last three fiscal periods and amount paid by the District for additional state contributions on the portion of the employees' salaries that exceeded the statutory minimum are as follows:

Contribution Rates and Contribution Amounts						
Year	Member		State		Federal, Statutory Minimum, New Members, Surcharge (District)	
	Rate	Amount	Rate	Amount	Amount	
2013	6.40%	\$ 4,836,797	6.40%	\$ 3,405,634	\$ 1,223,197	
2012	6.40%	\$ 4,948,642	6.00%	\$ 3,398,799	\$ 1,136,144	
2011	6.40%	\$ 4,991,718	6.40%	\$ 3,295,474	\$ 1,332,786	

Revenue and expenditures equal to the amount paid by the State of Texas for on-behalf fringe benefits were recognized during the fiscal year.

Waco Independent School District

**Notes to the Financial Statements
For the Year Ended August 31, 2013**

I. School District Retiree Health Plan

Plan Description. The District contributes to the Texas Public School Retired Employees Group Insurance Program (TRS-Care), a cost-sharing multiple employer defined benefit post-employment health care plan administered by 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. 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 web site at www.trs.state.tx.us; by writing to the Communications Department of the Teacher Retirement System of Texas at 100 Red River Street, Austin, TX 78701; or by calling 1-800-223-8778.

Funding Policy. Contribution requirements are not actuarially determined but are established each biennium by the Texas legislature. Texas Insurance Code Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. Funding for free basic coverage is provided by the program based upon public school district payroll. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. Funding for optional coverage is provided by those participants selecting the optional coverage. Contribution rates and amounts are shown in the table below for fiscal years 2013, 2012, and 2011.

Contribution Rates and Contribution Amounts						
Year	Member		State		School District	
	Rate	Amount	Rate	Amount	Rate	Amount
2013	0.65%	\$ 484,905	0.50%	\$ 266,065	0.55%	\$ 422,419
2012	0.65%	\$ 502,607	1.00%	\$ 566,467	0.55%	\$ 424,282
2011	0.65%	\$ 506,969	1.00%	\$ 496,007	0.55%	\$ 428,983

Medicare, Part D. Federal legislation enacted in January 2006 established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One provision of the law allows TRS-Care to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible participants. These payments totaled \$198,230, \$197,251, and \$203,872 for fiscal years 2013, 2012 and 2011, respectively. Revenue and expenditures equal to the amount paid by the federal government were recognized for the three years. Information was not available to record these amounts in prior fiscal years. The recording of the revenue and expenditures paid on behalf of the District would have no effect on previously reported fund balance or net position.

J. Due from State Agencies

The District participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. In addition, the District receives entitlements from the State through the School Foundation and Per Capita Programs. Amounts due from other governments as of August 31, 2013, are summarized below. All federal grants shown below are passed through the TEA and are reported on the financial statements as Due from State Agencies.

Fund	State Entitlements	Federal Grants	Other Governments	Total
General	\$ 57,090	\$ 2,441	\$ 166	\$ 59,697
Special Revenue	40,815	3,815,060	379,840	4,235,715
Total	\$ 97,905	\$ 3,817,501	\$ 380,006	\$ 4,295,412

Waco Independent School District

Notes to the Financial Statements For the Year Ended August 31, 2013

K. 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, penalties, interest, and other tax related income	\$ 42,492,434	\$ -	\$ 12,872,360	\$ -	\$ -	\$ 55,364,793
Food sales	-	748,295	-	-	-	748,295
Investment income	126,947	326	9,505	13,462	323	150,562
Extracurricular activities	469,420	-	-	-	-	469,420
Tuition and fees	183,918	-	-	-	-	183,918
SSA revenue from member districts	44,135	-	-	-	1,012,658	1,056,793
Other	308,723	-	-	-	1,600,140	1,908,863
	<u>\$ 43,625,576</u>	<u>\$ 748,621</u>	<u>\$ 12,881,864</u>	<u>\$ 13,462</u>	<u>\$ 2,613,121</u>	<u>\$ 59,882,644</u>

L. 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, 2013, 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, if any, to be immaterial.
2. Construction Commitments -- As of August 31, 2013, the District was party to construction contracts totaling approximately \$2.2 million of which \$1.4 million, had been incurred.
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 not have a material adverse effect on the District's financial position, results of operations, or liquidity.

M. Shared Services Arrangements (SSA)

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 schedule on the following page.

Waco Independent School District

**Notes to the Financial Statements
For the Year Ended August 31, 2013**

M. Shared Services Arrangements (SSA) (continued)

Member District	Student Days Attended	Fund 446 McLennan Co. Challenge Academy
Axtell	136	\$ 8,217
Bruceville-Eddy	94	5,679
China Spring	111	6,707
Connally	312	18,851
Crawford	12	725
La Vega	583	35,225
Lorena	81	4,894
Mart	27	1,631
McGregor	189	11,419
Methodist Home	66	3,988
Midway	1,056	63,803
Moody	16	967
Riesel	13	785
Robinson	471	28,458
Valley Mills	2	121
Waco	9,612	580,751
West	124	7,492
Total	<u>12,905</u>	<u>\$ 779,712</u>

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 Numbers 315, 316, 317, 340, 435, and 458. Member districts' contributions are accounted for in fund 458. Expenditures of the SSA are summarized by member district as follows:

Member District	Number of Students	Regional Day School for the Deaf					Total
		Fund 315 IDEA-Part B, Discretionary	Fund 316 IDEA-Part B, Deaf	Fund 317 IDEA-Part B, Preschool Deaf	Fund 435 Regional Day School for the Deaf	Fund 458 Regional Day School for the Deaf	
Axtell	1	\$ 417	\$ 499	\$ 18	\$ 4,870	\$ 7,641	\$ 13,445
Bruceville-Eddy	1	417	499	18	4,870	7,641	13,445
Connally	3	1,249	1,499	54	14,610	22,921	40,333
Hill County Co-Op (Whitney)	1	417	499	18	4,870	7,641	13,445
La Vega	1	417	499	18	4,870	7,641	13,445
Midway	3	1,249	1,499	54	14,610	22,921	40,333
Robinson	2	833	999	36	9,740	15,281	26,889
Waco	25	10,415	12,488	449	121,750	191,013	336,115
West	1	417	499	18	4,870	7,641	13,445
Total	<u>38</u>	<u>\$ 15,831</u>	<u>\$ 18,980</u>	<u>\$ 683</u>	<u>\$ 185,060</u>	<u>\$ 290,341</u>	<u>\$ 510,895</u>

Waco Independent School District

Notes to the Financial Statements For the Year Ended August 31, 2013

N. Related Organizations

The Waco ISD Education Foundation (the "Foundation"), a not-for-profit entity, was organized to develop community relationships and to provide grants to teachers for creative educational programs and projects. The Foundation is a "related organization" of the District as defined by *Governmental Accounting Standards Board Statement No. 14*. This organization is not reported as a component unit because the funds held by the organization are not significant to the District's financial statements, as defined by *Governmental Accounting Board Standards Statement No. 39*.

O. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the District participates in public entity risk sharing pools, under TASB Risk Management Fund (the "Fund") property, liability and unemployment compensation programs. 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 the respective programs. The terms and limits of the stop-loss program vary by line of coverage. For the year ended August 31, 2013, the Fund anticipates that the District has no additional liability with respect to the programs listed above beyond the contractual obligations for payment of contributions.

The District also participates as a partially self-funded member of the Fund's workers' compensation program. As a partially self-funded member of the program, the District's responsibility for claims cost, both reported and unreported, is limited to an annually specified amount. The Fund provides administrative services to its members including claims administration and customer service. The District is protected against higher than expected claims through the purchase of stop loss coverage. For the 2012-13 plan year, the excess coverage insurance policy covers claims in excess of \$820,831. The Fund performs an evaluation of workers' compensation claims submitted incidents occurring prior to August 31, 2013 and has projected open claims and incurred but not reported claims for all years will cost \$830,231.

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	Current Year Estimates	Claims Payment	End of Year Accrual
2011	\$ 829,465	\$ 252,988	\$ 242,403	\$ 840,050
2012	\$ 840,050	\$ 191,234	\$ 226,390	\$ 804,894
2013	\$ 804,894	\$ 177,945	\$ 152,608	\$ 830,231

The Fund's audited financial statements are available at the TASB offices and are on file with the Texas Department of Insurance in Austin. The District has not significantly reduced insurance coverage during the past three years or had settlements which exceeded coverage amounts since the 2005-06 plan year.

Waco Independent School District
Notes to the Financial Statements
For the Year Ended August 31, 2013

P. Arbitrage

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

The Act requires issuers of tax-exempt debt to make payments to the 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 and 2009 series bonds and, as of August 31, 2013, there was no arbitrage rebate liability on bonds issued.

Q. Prior Period Adjustment

Campus activity funds not controlled by student groups have previously been accounted for in an agency fund. Agency funds should only be used to account for funds which are the property of students or other groups and are held by the District in a custodial capacity. The restated campus activity funds are used to account for transactions related to a principal's activity fund and are not subject to recall by the District's Board of Trustees into the General Fund. The assets, liabilities, and fund balances of these funds were transferred from an agency fund into a special revenue fund resulting in a net fund balance transfer of \$425,902.

ASSETS

Cash and cash equivalents	\$ 112,427
Due from other funds	324,306
Total assets	<u>436,733</u>

LIABILITIES

Accounts payable	10,712
Accrued expenditures	119
	<u>10,831</u>

FUND BALANCES

Other assigned fund balance	425,902
Total liabilities and fund balances	<u>\$ 436,733</u>

R. Restatement of Net Position

During the fiscal year ending August 31, 2013, the District implemented GASB Statement No. 65, items Previously Reported as Assets and Liabilities. GASB 65 reclassified costs associated with bond issuance as expenses of the current period. Consequently, the District is restating net position for fiscal year 2012 to reflect the write-off of unamortized bond issuance costs.

Required Supplementary Information

Waco Independent School District
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
General Fund
For the Year Ended August 31, 2013

Data Control Codes		Budgeted Amounts			Variances With Final Budget
		Original	Final	Actual	
REVENUES					
5700	Local and intermediate sources	\$ 42,355,076	\$ 43,086,407	\$ 43,625,576	\$ 539,169
5800	State program revenues	65,455,732	65,520,247	65,454,007	(66,240)
5900	Federal program revenues	2,398,876	2,409,794	2,635,024	225,230
5020	Total revenues	110,209,684	111,016,448	111,714,607	698,159
EXPENDITURES					
Current:					
6011	Instruction	56,379,782	56,960,608	55,596,266	1,364,342
6012	Instructional resources and media services	906,023	938,178	857,605	80,573
6013	Curriculum and instructional staff development	3,194,667	2,654,315	2,406,320	247,995
6021	Instructional leadership	2,428,607	2,456,740	2,303,890	152,850
6023	School leadership	7,903,733	8,237,584	7,950,953	286,631
6031	Guidance, counseling, and evaluation services	3,889,138	3,560,923	3,456,338	104,585
6032	Social work services	297,411	298,851	286,766	12,085
6033	Health services	1,029,004	980,411	920,436	59,975
6034	Student transportation services	2,987,409	3,505,706	2,819,384	686,322
6036	Cocurricular/extracurricular activities	3,361,084	3,662,384	3,521,421	140,963
6041	General administration	3,663,737	3,913,761	3,700,635	213,126
6051	Plant maintenance and operations	15,350,024	16,750,719	14,410,640	2,340,079
6052	Security and monitoring services	1,685,559	2,044,574	1,866,864	177,710
6053	Data processing services	3,368,539	3,596,627	2,587,351	1,009,276
6061	Community services	569,428	718,662	649,507	69,155
6093	Payments to fiscal agent/member districts of shared services arrangements	210,000	210,000	112,744	97,256
6095	Payments to Juvenile Justice Alternative Education Program	570,000	600,000	556,650	43,350
6097	Payments to tax increment fund	2,125,204	2,784,917	2,703,331	81,586
6099	Other intergovernmental charges	611,947	603,947	597,698	6,249
Debt service:					
6071	Debt service - principal on long term debt	740,000	740,000	740,000	-
6072	Debt service - interest on long term debt	223,450	223,450	222,967	483
6073	Debt service - bond issuance cost and fees	10,000	10,000	2,900	7,100
Capital outlay:					
6081	Facilities acquisition and construction	-	8,125,065	6,718,785	1,406,280
6030	Total expenditures	111,504,746	123,577,422	114,989,451	8,587,971
1100	Excess (deficiency) of revenues over (under) expenditures	(1,295,062)	(12,560,974)	(3,274,844)	9,286,130
OTHER FINANCING SOURCES (USES)					
7912	Sale of real and personal property	-	5,978,938	1,282,789	(4,696,149)
	Total other financing sources	-	5,978,938	1,282,789	(4,696,149)
1200	Net change in fund balance	(1,295,062)	(6,582,036)	(1,992,055)	4,589,981
0100	Fund balance, beginning	30,262,624	34,905,993	34,905,993	-
3000	Fund balance, ending	\$ 28,967,562	\$ 28,323,957	\$ 32,913,938	\$ 4,589,981

Waco Independent School District
Notes to the Schedule of Revenues, Expenditures, and Changes in Fund Balance –
Budget and Actual
General Fund
For the Year Ended August 31, 2013

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund, the National School Breakfast and Lunch fund, and the debt service fund. Budgets are not legally adopted for capital projects funds, however, specific projects are individually approved by the Board of Trustees. All annual appropriations lapse at fiscal year-end.

Functional expenditures did not exceed appropriations for the year ended August 31, 2013.

Other Supplementary Information

**Waco Independent School District
Schedule of Delinquent Taxes Receivable
For the Year Ended August 31, 2013**

Last Ten Years Ended August 31,	1	2	3
	Tax Rates		Assessed
	Maintenance & Operation	Debt Service	Appraised Value For School Tax Purposes
2004 and prior years	Various	Various	Various
2005	\$ 1.41983	\$ 0.11850	\$ 2,582,658,519
2006	\$ 1.44559	\$ 0.11850	\$ 2,789,240,192
2007	\$ 1.32181	\$ 0.12200	\$ 3,081,814,435
2008	\$ 1.04005	\$ 0.12200	\$ 3,198,779,674
2009	\$ 1.04005	\$ 0.31910	\$ 3,370,354,309
2010	\$ 1.04005	\$ 0.32630	\$ 3,520,746,064
2011	\$ 1.04000	\$ 0.32475	\$ 3,725,943,682
2012	\$ 1.04000	\$ 0.32100	\$ 3,833,148,214
2013 (school year under audit)	\$ 1.04000	\$ 0.31518	\$ 4,040,822,252
100 Totals			

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

\$ 191,158,077

10	20	31	32	40	50
Balance September 1, 2012	Current Year's Total Levy	Total Collections		Entire Year's Adjustments	Balance August 31, 2013
		Maintenance & Operations	Debt Service		
\$ 538,057	\$ -	\$ 12,297	\$ 1,207	\$ (91,967)	\$ 432,586
130,398	-	2,765	231	(3,033)	124,369
164,967	-	6,488	532	(3,155)	154,792
193,672	-	8,101	748	(3,192)	181,631
186,405	-	13,973	1,639	(3,037)	167,756
261,863	-	29,170	8,950	(5,280)	218,463
409,442	-	95,037	29,816	(10,765)	273,824
717,120	-	270,416	84,440	(53,559)	308,705
1,254,708	-	557,375	172,035	(96,601)	428,697
-	54,760,415	40,839,995	12,376,873	(480,126)	1,063,421
<u>\$ 3,856,631</u>	<u>\$ 54,760,415</u>	<u>\$ 41,835,617</u>	<u>\$ 12,676,471</u>	<u>\$ (750,715)</u>	<u>\$ 3,354,244</u>
<u>\$ 436,687</u>	<u>\$ 2,561,177</u>	<u>\$ 2,182,158</u>	<u>\$ 663,338</u>	<u>\$ 528</u>	<u>\$ 152,896</u>

Waco Independent School District
Schedule of Expenditures for Computations of Indirect Costs -
General and Special Revenue Funds
For the Year Ended August 31, 2013
Function 41 and Related Function 53 - General Administration, 99 - Appraisal District Cost

Account Number	Account Name	1 (702) School Board	2 (703) Tax Collections	3 (701) Superintendent's Office	4 (750) Indirect Cost	5 (720) Direct Cost	6 Other Miscellaneous	7 Total
611X-6146	Payroll costs	\$ 6,245	\$ -	\$ 266,920	\$ 2,536,193	\$ -	\$ -	\$ 2,809,358
6149	Leave for separating employees in fnc 41, 53	-	-	-	-	-	-	-
6149	Leave for separating employees not in fnc 41, 53	-	-	-	-	-	-	-
6211	Legal services	6,791	-	166,946	-	2,977	-	176,714
6212	Audit services	-	-	-	38,577	-	-	38,577
6213	Tax appraisal and collection	-	725,372	-	-	-	-	725,372
6219	Other professional services	-	-	-	2,525	-	-	2,525
6230	Education Service Centers	3,740	-	3,489	20,772	-	-	28,001
6240	Contracted maintenance and repairs	-	-	-	-	66,194	-	66,194
6250	Utilities	-	-	-	-	1,177	-	1,177
6260	Rentals	-	-	355	35,494	-	-	35,849
6290	Miscellaneous contracted services	4,976	-	4,653	143,035	-	-	152,664
6320	Textbooks and reading materials	-	-	219	317	-	-	536
63XX	Other supplies and materials	1,185	-	14,390	103,862	-	-	119,437
6410	Travel and stipends	6,954	-	6,345	24,180	-	-	37,479
6420	Insurance and bonding costs	-	-	-	88,682	-	-	88,682
6430	Election costs	493	-	-	-	-	-	493
6490	Miscellaneous operating costs	25,881	-	15,292	67,153	-	-	108,326
6600	Capital outlay	-	-	-	-	-	204,709	204,709
6000	Total	\$ 56,265	\$ 725,372	\$ 478,609	\$ 3,060,790	\$ 70,348	\$ 204,709	\$ 4,596,093
Total expenditures for General and Special Revenue Funds							(9) \$	144,288,684
Less: deductions of unallowable costs:								
FISCAL YEAR								
Total capital outlay (6600 costs)						(10)	8,230,391	
Total debt and lease (6500 costs)						(11)	965,867	
Plant maintenance (function 51, 6100-6400)						(12)	14,699,369	
Food (function 35, 6341 and 6499)						(13)	4,560,992	
Stipends (6413)						(14)	4,697	
Column 4 (above) - total indirect cost							3,060,790	
Subtotal								31,522,106
Net allowed direct costs								\$ 112,766,578
CUMULATIVE								
Total cost of buildings before depreciation						(15) \$	289,073,379	
Historical cost of building over 50 years old						(16) \$	66,537,803	
Amount of federal money in building cost						(17) \$	-	
Total cost of furniture and equipment before depreciation						(18) \$	30,556,943	
Historical cost of furniture and equipment over 16 years old						(19) \$	2,688,703	
Amount of federal money in furniture and equipment						(20) \$	1,859,237	

(8) NOTE A: \$288,075 in Function 53 expenditures are included in this report on administrative costs.

\$597,698 in Function 99 expenditures for appraisal district costs are included in this report on administrative costs.

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, 2013

Data Control Codes		Budgeted Amounts		Actual	Variances With Final Budget
		Original	Final		
REVENUES					
5700	Local and intermediate sources	\$ 782,500	\$ 782,500	\$ 748,621	\$ (33,879)
5800	State program revenues	56,150	110,150	107,895	(2,255)
5900	Federal program revenues	8,851,000	9,009,815	9,008,979	(836)
5020	Total revenues	9,689,650	9,902,465	9,865,495	(36,970)
EXPENDITURES					
Current:					
6035	Food services	9,327,150	9,892,958	9,617,290	275,668
6051	Plant maintenance and operations	362,500	362,500	279,701	82,799
6030	Total expenditures	9,689,650	10,255,458	9,896,991	358,467
1100	Excess of revenues over expenditures	-	(352,993)	(31,496)	321,497
OTHER FINANCING SOURCES (USES)					
7912	Sale of real and personal property	-	-	25,083	25,083
	Total other financing sources	-	-	25,083	25,083
1200	Net change in fund balance	-	(352,993)	(6,413)	346,580
0100	Fund balance, beginning	1,049,941	1,489,347	1,489,347	-
3000	Fund balance, ending	\$ 1,049,941	\$ 1,136,354	\$ 1,482,934	\$ 346,580

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, 2013

Data Control Codes		Budgeted Amounts			Variances With Final Budget
		Original	Final	Actual	
REVENUES					
5700	Local and intermediate sources	\$ 12,545,660	\$ 12,867,327	\$ 12,881,864	\$ 14,537
5800	State program revenues	3,430,039	3,430,039	3,448,605	18,566
5020	Total revenues	15,975,699	16,297,366	16,330,469	33,103
EXPENDITURES					
Current:					
6097	Payments to tax increment fund	6,140,000	6,320,000	6,315,000	5,000
Debt service:					
6071	Debt service - principal on long-term debt	9,270,661	9,123,529	9,019,148	104,381
6072	Debt service - interest on long-term debt	15,000	180,204	156,074	24,130
6073	Debt service - bond issuance cost and fees	550,038	871,705	689,822	181,883
6030	Total expenditures	15,975,699	16,495,438	16,180,044	315,394
1100	Excess of revenues over expenditures	-	(198,072)	150,425	348,497
Excess (deficiency) of revenues over (under) expenditures					
1200		-	(198,072)	150,425	348,497
OTHER FINANCING SOURCES (USES)					
7911	Capital related debt issued (regular bonds)	-	9,635,000	9,635,000	-
7915	Transfers in	-	-	8,946	8,946
7916	Premium on bonds issued	-	856,821	856,820	(1)
7917	Prepaid interest on bonds issued	-	32,868	32,868	-
8949	Other (rses)	-	(10,326,616)	(10,326,616)	-
7080	Total other financing sources	-	198,072	207,018	8,945
1200	Net change in fund balance	-	-	357,443	357,442
0100	Fund balance, beginning	2,394,310	3,119,513	3,119,513	-
3000	Fund balance, ending	\$ 2,394,310	\$ 3,119,513	\$ 3,476,956	\$ 357,442

Compliance, Internal Control, and Federal Awards



**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**

January 21, 2014

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Waco Independent School District (the "District"), as of and for the year ended August 31, 2013, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 21, 2014.

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 to determine the auditing 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.

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Governmental
Audit Quality Center

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.

The logo features the names 'Belt Harris Pechacek' in a large, ornate, cursive script. Below the first part of the name, 'Belt Harris', the text 'PECHACEK, LLP' is written in a smaller, all-caps, sans-serif font.

Belt Harris Pechacek, LLP
Certified Public Accountants
Houston, Texas



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH
OMB CIRCULAR A-133**

January 21, 2014

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

Report on Compliance for Each Major Federal Program

We have audited the Waco Independent School District's (the "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, 2013. The District's major federal programs are identified in the summary of auditors' 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.

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

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the 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, 2013.

Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the 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 a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our 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.

 BELT HARRIS PECHACEK, LLP

Belt Harris Pechacek, LLP
Certified Public Accountants
Houston, Texas

**WACO INDEPENDENT
SCHOOL DISTRICT**
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended August 31, 2013

A. SUMMARY OF PRIOR YEAR AUDIT FINDINGS

No prior year findings.

**WACO INDEPENDENT
SCHOOL DISTRICT**
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended August 31, 2013

A. SUMMARY OF AUDIT RESULTS

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

<u>CFDA Numbers</u>	<u>Name of Federal Program</u>
84.027, 84.173, 84.391, 84.392	Special Education Cluster (IDEA)
84.396	Summer School Program for LEP
84.365	English Language Acquisition Grants
84.367	Title II, Part A - Teacher and Principal Training & Recruitment
84.287	21st Century Community Learning Centers
84.048	Career and Technical Education Grants
84.196	Education for Homeless Children & Youth

8. The threshold for distinguishing Type A and B programs was \$788,804.
9. The District did qualify as a low-risk auditee.

B. FINDINGS – BASIC FINANCIAL STATEMENT AUDIT

None Noted

C. FINDINGS – FEDERAL AWARDS

None Noted

Waco Independent School District
Schedule of Expenditures of Federal Awards
For the Year Ended August 31, 2013

	2	3	4
Federal Grantor / Pass-Through Grantor / Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures, Indirect Costs and Refunds
U.S. Department of Defense			
<u>Direct programs:</u>			
Junior Reserve Officer Training Corp	12.000	N/A	\$ 89,667
Impact Aid-Payments in Lieu of Taxes-Flood Control	12.112	N/A	1,325
Total Direct Programs			90,992
Total U.S. Department of Defense			90,992
U.S. Department of Education			
<u>Passed Through State Department of Education</u>			
ESEA Title I, Part A - Improving Basic Programs *1	84.010A	12610101161914	1,277,803
ESEA Title I, Part A - Improving Basic Programs *1	84.010A	13610101161914	6,611,454
ESEA Title I, Part A - Improving Basic Programs *1	84.010A	14610101161914	194,723
ESEA Title I, Part A - School Improvement *1	84.010A	12610104161914002	23,201
ESEA Title I, Part A - School Improvement *1	84.010A	13610104161914002	120,284
ESEA Title I, Part A - School Improvement *1	84.010A	13610110161914002	111,546
ESEA Title I, Part A - School Improvement *1	84.010A	13610104161914043	21,219
ESEA Title I, Part A - School Improvement *1	84.010A	13610110161914043	93,588
ESEA Title I, Part A - School Improvement *1	84.010A	13610104161914044	15,000
ESEA Title I, Part A - School Improvement *1	84.010A	13610104161914104	3,056
ESEA Title I, Part A - School Improvement *1	84.010A	13610104161914110	12,052
Total CFDA Number 84.010A			8,483,926
IDEA, Part B - Formula *2	84.027A	126600011619146600	7,207
IDEA, Part B - Formula *2	84.027A	136600011619146600	2,905,508
IDEA, Part B - Formula *2	84.027A	146600011619146600	182,745
SSA - IDEA, Part B - Discretionary (Deaf) *2	84.027A	136600021619146673	16,127
SSA - IDEA, Part B - Formula Deaf *2	84.027A	126600011619146601	858
SSA - IDEA, Part B - Formula Deaf *2	84.027A	136600011619146601	17,629
SSA - IDEA, Part B - Formula Deaf *2	84.027A	146600011619146601	847
Total CFDA Number 84.027A			3,130,921
IDEA, Part B Preschool *2	84.173A	136610011619146610	36,457
SSA - IDEA, Part B - Preschool Deaf *2	84.173A	126610011619146611	696
Total CFDA Number 84.173A			37,153
Career and Technical - Basic Grant	84.048A	13420006161914	225,355
Career and Technical - Basic Grant	84.048A	14420006161914	71,330
Total CFDA Number 84.048A			296,685
ESEA Title X, Part C - Homeless Children	84.196A	13-048	144,740
Total CFDA Number 84.196A			144,740
ESEA Title VI, Part B - 21st Century Community	84.287C	126950127110024	689,732
Total CFDA Number 84.287C			689,732
Summer School LEP	84.369A	69551102	15,128
ESEA Title III, Part A - English Language Acquisition	84.365A	13671001161914	\$ 286,687
ESEA Title III, Part A - English Language Acquisition	84.365A	14671001161914	10,446
Total CFDA Number 84.365A			297,133

Waco Independent School District
Schedule of Expenditures of Federal Awards
For the Year Ended August 31, 2013

	2	3	4
Federal Grantor / Pass-Through Grantor / Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures, Indirect Costs and Refunds
ESEA Title II, Part A - Teacher/Principal Training	84.367A	12694501161914	23,037
ESEA Title II, Part A - Teacher/Principal Training	84.367A	13694501161914	1,017,757
ESEA Title II, Part A - Teacher/Principal Training	84.367A	14694501161914	111,831
Total CFDA Number 84.367A			1,152,625
Total Passed Through State Department of Education			14,248,043
Total U.S. Department of Education			14,248,043
U.S. Department of Labor			
<u>Passed Through Texas Workforce Commission</u>			
WIA Dislocated Worker - Formula Grants	17.278	1313ATP000	11,522
Total Passed Through Texas Workforce Commission			11,522
Total U.S. Department of Labor			11,522
U.S. Department of Health and Human Services			
<u>Passed Through Texas Department of Human Services</u>			
Medicaid Administrative Claiming Program - MAC	93.778		80,181
Student Health Related Services - SHARS	93.778		2,230,620
Total CFDA Number 93.778			2,310,801
Total Passed Through Texas Department of Human Services			2,310,801
Total U.S. Department of Health and Human Services			2,310,801
Federal Communications Commission			
<u>Direct Programs</u>			
Universal E-Rate	32.000		10,892
Total Direct Programs Through the Federal Communications Commission			10,892
Total Federal Communications Commission			10,892
U.S. Department of Agriculture			
<u>Passed Through the State Department of Agriculture</u>			
National School Breakfast Program *3	10.553	71400401	2,121,906
National School Lunch Program - Non-Cash Assistance *3	10.555	161026A	542,575
National School Lunch Program - Cash Assistance *3	10.555	71300401	6,188,030
Summer Feeding Program - Cash Assistance *3	10.559	7561013	612,248
Total Child Nutrition Cluster			9,464,759
Fresh Fruit and Vegetable Program	10.582		156,468
Total Passed Through State Department of Agriculture			9,621,227
Total U.S. Department of Agriculture			9,621,227
Total Expenditures of Federal Awards			\$ 26,293,477

* Clustered Programs

Waco Independent School District
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended August 31, 2013

A. Basis of Accounting

The accompanying schedule of expenditures of federal awards presents the activity of all federal award programs of the District. The District receives federal awards both directly and indirectly through pass-through entities.

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, 2013**

SF2	Were there any disclosures in the Annual Financial Report and / or other sources of information concerning default on bonded indebtedness obligations?	No
SF4	Did the district receive a clean audit? Was there a modified opinion in the Annual Financial Report?	Yes
SF5	Did the Annual Financial Report disclose any instances of material weaknesses in internal controls?	No
SF9	Was there any disclosure in the Annual Financial Report of material noncompliance?	No
SF10	Total accumulated accretion on capital appreciation bonds included in government-wide financial statements at fiscal year end.	<u>\$1,096,955</u>