

Waco Independent School District

Annual Financial Reports

For the Year Ended August 31, 2012

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, 2012 at a meeting of the Board of Trustees of such independent school district on the 24th day of January 2013.

Angela Tekell

Board Secretary

Pat Atkins

Board President

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

Financial Statements



INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type 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, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 23, 2013, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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Governmental
Audit Quality Center

financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the Required Supplementary Information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The introductory section and combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not required parts of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information, except for that portion marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



Belt Harris Pechacek, LLP
Certified Public Accountants
Houston, Texas
January 23, 2013

Management's Discussion and Analysis

Waco Independent School District
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended August 31, 2012

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, 2012. This section of the financial report is intended to:

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

We encourage readers to consider the information presented in this section in conjunction with the 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, 2012:

- ♦ On a government-wide basis, total assets exceeded its liabilities by \$64,035,393. This amount represents the District's net assets of which \$23,918,311 is invested in capital assets net of related debt and \$2,188,527 is restricted for debt service. The remaining \$37,928,555 is unrestricted and may be used to meet ongoing obligations.
- ♦ Total net assets for governmental activities increased by \$3,956,641 over the prior year with unrestricted net assets increasing by \$5,163,257.
- ♦ For business type activities, there were no net assets at year end. With the closure of the District's Child Care Center, funds were transferred from unassigned fund balance in the General Fund to cover the \$376,598 deficit in the Enterprise Fund.
- ♦ As of August 31, 2012 the governmental funds reported combined ending fund balances of \$47,314,863, a decrease of \$14,577,157 compared with the prior year. Of the combined fund balances, \$29,770,570 or 62.9 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 \$34,905,994 at August 31, 2012, of which \$29,770,570 was unassigned. The unassigned amount represents 28.0 percent of its annual operating expenditures. Although, the total fund balance increased by \$4,542,376 over the prior year, the unassigned fund balance increased by only \$2,345,605, reflecting increases in funds committed for special projects, particularly renovations to accommodate school consolidations.
- ♦ The ending fund balance for the National School Breakfast and Lunch Programs was \$1,489,347, an increase of \$467,657 over the prior year. Nonspendable amounts in inventories decreased \$78,847.
- ♦ The District's total long-term debt decreased by \$5,852,293. The fund balance reserved for debt service increased by \$763,028 to \$3,119,528 at August 31, 2012.

Waco Independent School District
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended August 31, 2012

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 Assets	Governmental Funds Balance Sheet	Proprietary Funds Statement of Net Assets	Fiduciary Funds Statement of Fiduciary Net Assets
	Statement of Activities	Statement of Revenues, Expenditures, and Changes in Fund Balances	Statement of Revenues, Expenses, and Changes in Fund Net Assets	Statement of Changes in Fiduciary Net Assets
			Statement of Cash Flows	
	Notes to the Financial Statements			
	Required Supplementary Information and Supplemental Schedules Required by the TEA			

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

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

Waco Independent School District
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended August 31, 2012

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 assets includes all the District's assets and liabilities at the end of the year, with the difference between the two reported as *net assets*. This statement consolidates current financial resources with capital assets and long-term obligations. Although the purpose of the District is not to accumulate net assets, 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 assets changed during the fiscal year. All changes in net assets 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.

Waco Independent School District
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended August 31, 2012

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:
 - o *Enterprise funds* are used to account for business-type activities. The District utilizes an enterprise fund to report activities for the Child Care Center which began operation in the 2010-11 school year. The Center was closed at the end of the 2011-12 school year and an operating transfer was made from the unassigned fund balance in the General Fund to cover the deficit in the Enterprise Fund.
 - o *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 assets and a statement of changes in fiduciary net assets. The fiduciary funds include scholarship funds and campus activity funds.

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

In addition to the basic financial statements and accompanying notes, this report also presents certain required 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.

Waco Independent School District
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended August 31, 2012

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The District's overall financial position and operations for the fiscal years ended August 31, 2012 and 2011 are summarized as follows, based on the information included in the government-wide financial statements.

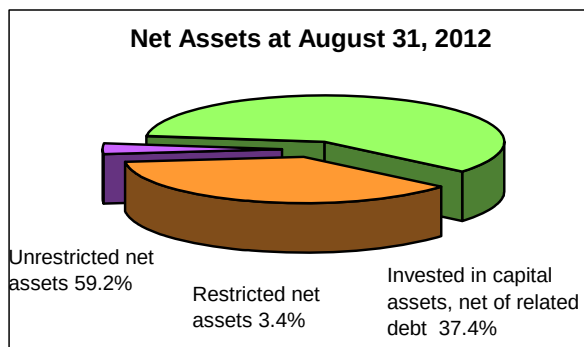
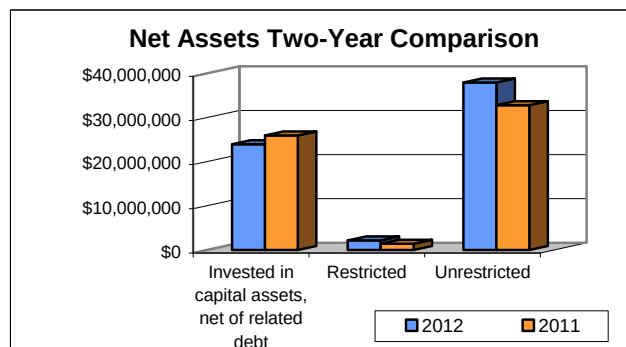
Waco Independent School District's Schedule of Net Assets

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 57,901,448	81,778,633	2,045	(266,275)	57,903,493	81,512,358
Capital assets	217,001,657	204,462,352	-	-	217,001,657	204,462,352
Total assets	274,903,105	286,240,985	2,045	(266,275)	274,905,150	285,974,710
Current liabilities	15,790,997	24,088,143	2,045	3,336	15,793,042	24,091,479
Long-term liabilities	195,076,715	202,074,090	-	-	195,076,715	202,074,090
Total liabilities	210,867,712	226,162,233	2,045	3,336	210,869,757	226,165,569
Net assets:						
Invested in capital assets, net of related debt	23,918,311	25,914,119	-	-	23,918,311	25,914,119
Restricted	2,188,527	1,399,335	-	-	2,188,527	1,399,335
Unrestricted	37,928,555	32,765,298	-	(269,611)	37,928,555	32,495,687
Total net assets	\$ 64,035,393	60,078,752	-	(269,611)	64,035,393	59,809,141

The total assets exceed total liabilities by \$64,035,393 at August 31, 2012, increasing \$3,956,641 over the prior year. At the end of the fiscal year, 59.2 percent of the net assets were unrestricted resources available to fund the ongoing operations of the District. Unrestricted net assets 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 37.4 percent of the District's net assets were invested in capital assets net of related debt. 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 investment in capital assets, net of related debt, decreased \$1,995,808. Capital assets increased \$12,539,305, net of related depreciation which increased \$5,689,342. This amount included \$527,262 additional depreciation taken on three campuses permanently closed and declared surplus as a result of school consolidations and is net of the value of deleted assets sold or otherwise disposed of during the year. Related debt decreased by \$5,841,933. Total debt is offset by unexpended debt proceeds in the amount of \$7,799,994.

The remaining 3.4 percent of net assets represents resources subject to external restrictions on how they are used. These restricted net assets represent amounts legally reserved under bond covenants.



Waco Independent School District
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended August 31, 2012

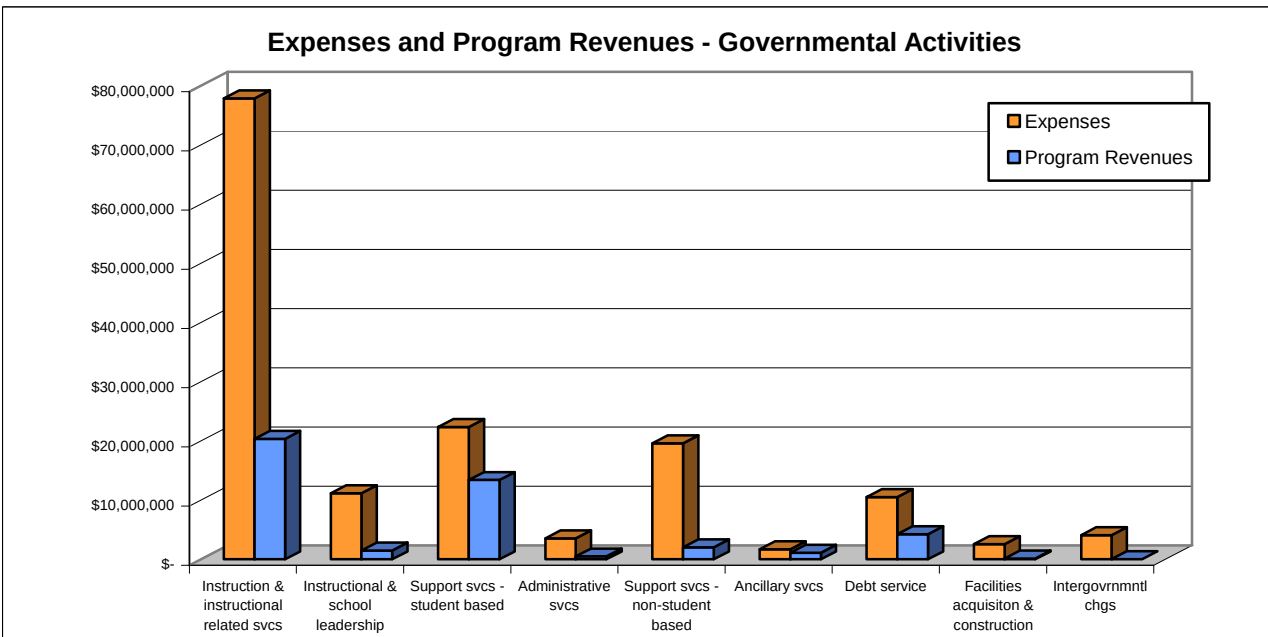
Changes in Net Assets

The following table provides a summary comparing the District's operations for the years ended August 31, 2012 and 2011. For the year ended August 31, 2012 governmental activities increased net assets by \$3,956,641. The net assets for business-type activities increased by \$269,612.

Waco Independent School District's Changes in Net Assets							
	Governmental Activities		Business-type Activities		Total		% Change
	2012	2011	2012	2011	2012	2011	
Revenues:							
Program Revenues:							
Charges for services	\$ 2,567,868	3,470,369	117,808	44,061	2,685,676	3,514,430	-26.01%
Operating grants and contributions	40,923,694	45,889,669	-	-	40,923,694	45,889,669	-10.82%
General Revenues:							
Property taxes	52,245,349	51,665,181	-	-	52,245,349	51,665,181	1.12%
State aid -- formula grants	61,305,521	60,642,343	-	-	61,305,521	60,642,343	1.09%
Investment earnings	196,319	787,439	-	-	196,319	787,439	-75.07%
Miscellaneous revenue	651,999	731,397	-	-	651,999	731,397	-10.86%
Total revenues	157,890,750	163,186,398	117,808	44,061	158,008,558	163,230,459	-3.25%
Expenses:							
Instruction	69,553,287	76,640,320	-	-	69,553,287	76,640,320	-9.25%
Instructional resources and media services	1,171,223	1,255,640	-	-	1,171,223	1,255,640	-6.72%
Curriculum development and instructional staff development	7,162,676	6,151,716	-	-	7,162,676	6,151,716	16.43%
Instructional leadership	2,715,340	2,378,751	-	-	2,715,340	2,378,751	14.15%
School leadership	8,442,081	8,751,249	-	-	8,442,081	8,751,249	-3.53%
Guidance, counseling, and evaluation services	3,950,581	4,362,036	-	-	3,950,581	4,362,036	-9.43%
Social work services	620,481	816,502	-	-	620,481	816,502	-24.01%
Health services	1,101,021	1,174,658	-	-	1,101,021	1,174,658	-6.27%
Student transportation	2,985,457	2,998,759	-	-	2,985,457	2,998,759	-0.44%
Food services	9,809,566	9,386,899	-	-	9,809,566	9,386,899	4.50%
Extracurricular activities	3,873,666	3,822,090	-	-	3,873,666	3,822,090	1.35%
General administration	3,544,327	3,446,312	-	-	3,544,327	3,446,312	2.84%
Plant maintenance and operations	14,953,331	15,284,945	-	-	14,953,331	15,284,945	-2.17%
Security and monitoring services	1,578,323	1,876,331	-	-	1,578,323	1,876,331	-15.88%
Data processing services	3,047,696	4,249,789	-	-	3,047,696	4,249,789	-28.29%
Community services	1,687,808	2,530,039	224,795	230,474	1,912,603	2,760,513	-33.29%
Debt service - interest on long-term debt	10,526,975	10,167,623	-	-	10,526,975	10,167,623	3.53%
Debt service - bond issuance costs and fees	7,050	9,100	-	-	7,050	9,100	-22.53%
Facilities Acquisition and construction	2,578,887	780,280	-	-	2,578,887	780,280	-
Payments to fiscal agents/member districts of shared services arrangements	186,303	198,462	-	-	186,303	198,462	-
Payments to Juvenile Justice Alternative Education program	491,733	640,408	-	-	491,733	640,408	-23.22%
Payments to tax increment fund	2,839,129	2,594,257	-	-	2,839,129	2,594,257	-
Other intergovernmental charges	583,310	606,403	-	-	583,310	606,403	-
Total expenses	153,410,251	160,122,569	224,795	230,474	153,635,046	160,353,043	-4.19%
Increase or (decrease) in net assets before transfers, special and extraordinary items	4,480,499	3,063,829	(106,987)	(186,413)	4,373,512	2,877,416	46.24%
Special item -- gain on sale of equipment	630,002	169,228	-	-	630,002	169,228	272.28%
Special item -- repayment of grant funds	(250,000)	-	-	-	(250,000)	-	-
Special item -- impairment of assets	(527,262)	-	-	-	(527,262)	-	-
Transfers in (out)	(376,598)	-	376,598	-	-	-	-
Increase or (decrease) in net assets	3,956,641	3,233,057	269,611	(186,413)	4,226,252	3,046,644	22.38%
Net assets, September 1	60,078,752	56,650,961	(269,611)	(83,198)	59,809,141	56,567,763	6.05%
Prior Period Adjustment	-	194,734	-	-	-	194,734	-
Net assets, August 31	\$ 64,035,393	60,078,752	-	(269,611)	64,035,393	59,809,141	6.59%

Waco Independent School District
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended August 31, 2012

The cost of all governmental activities totaled \$153,410,251 decreasing \$6,712,318 from the prior year. Program revenues of \$2,567,868, in the form of charges for services, and \$40,923,694, 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 \$61,305,521, 38.9 percent, of the \$157,693,499 total revenue. Funding from State formula grants increased \$663,178 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 2.3 percent for the 2011 tax year, the average daily attendance for the 2011-12 school year increased by 74 students from 2010-11.

Local property tax revenue contributed an additional \$52,245,349 or 33.1 percent of the total revenue. Property taxes for general purposes increased \$519,318 due to the increased values. Property taxes levied for debt service increased \$60,850 due to the same increase in values but there was a slight decrease in the tax rate from \$0.32475 per \$100 of valuation to \$0.32100 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.

Although \$2,650,210 in grant funds under the Education Jobs Act were received in 2011-12 and another \$704,035 in remaining funds from the American Recovery and Reinvestment Act of 2009 (ARRA) were expended and reimbursed, this represents a decrease of \$5,230,968 in federal stimulus funding. This accounts for the reduction in operating grants and contributions.

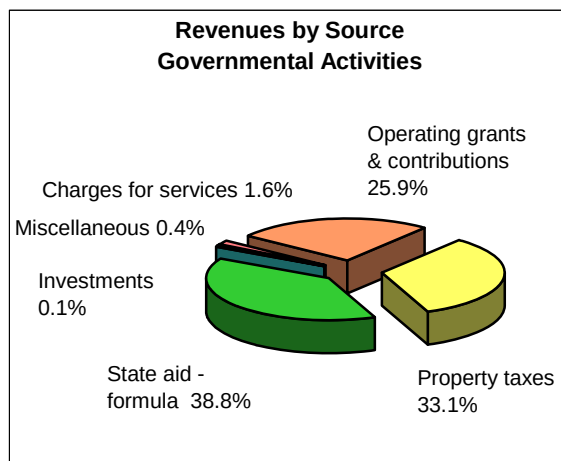
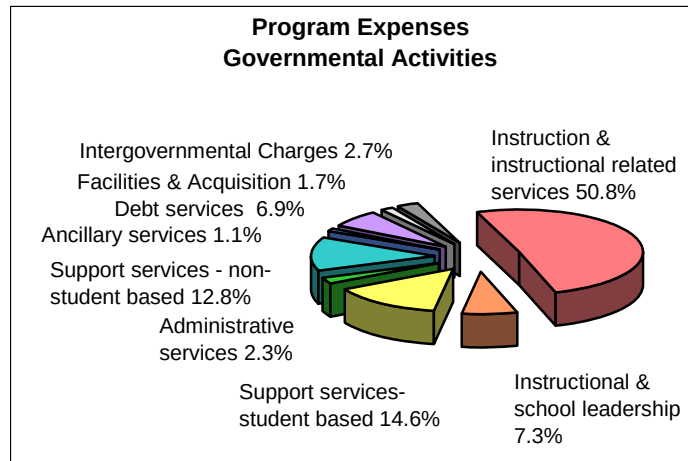
Revenues identified as charges for services decreased by \$902,501 from 2010-11. Most of the reduction, \$526,940, was due to the elimination of District-run after-school programs and the acceptance of ineligible prekindergarten students. Additionally, revenues from member districts for participation in the Challenge Academy were down \$341,733 due to program reductions and lower participation.

Waco Independent School District
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended August 31, 2012

Expenses for governmental activities decreased by \$6,712,318 from the prior year. The losses in federal funding significantly impacted expenditures for direct instruction, resulting in a reduction of \$7,087,033. The implementation of staffing guidelines for all campuses resulted in decreases in instructional resources and media services; school leadership; guidance, counseling, and evaluation services; social work services; and health services. Reductions in after-school programs, including the federally funded Community in Schools programs, cut expenditures by \$842,910. Staffing cuts were implemented in all non-student support functions reducing expenditures by an additional \$1,852,129. These decreases were offset by other increased staffing in curriculum development and instructional staff development and instructional leadership costing \$1,337,648 as well as cost increases in food services, debt service, and payments into the tax increment fund. Initial expenditures for facilities additions and renovations cost an additional \$1,798,605. These projects were approved by the Board of Trustees as part of the school consolidations proposal.

Due to the revenue losses, no salary increases were given for the 2011-12 fiscal year. Additionally, the District did not cover any increases in health insurance premiums and reduced its contribution to the employee's health insurance premiums by ten percent.

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



In January 2010, the District initiated activities to open an employee Child Care Center.

The Child Care Center has been accounted for as a business-type activity in an enterprise fund. At August 31, 2011 the Center had a deficit fund balance of \$269,611. In its second full year of operation the Center generated revenues of \$117,808 but incurred expenses of \$224,795. On March 29, 2012, the Board of Trustees decided to close the facility, transferring \$376,598 in unassigned fund balance from the General Fund to cover the deficit and repaying the \$250,000 in grant funds awarded through the Rapoport Foundation and previously recognized. The furniture, equipment, and supplies were repurposed for instructional use. The building has been closed pending a decision on repurposing of the facility.

Waco Independent School District
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended August 31, 2012

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Governmental Funds

At August 31, 2012, the District's governmental funds reported combined ending fund balances of \$47,314,863, a decrease of \$14,577,157 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 \$20,350,218.

The general fund supports most of the District's educational program support operations. As of August 31, 2012, the fund balance for the general fund totaled \$34,905,994, increasing \$4,542,376 over the year ended August 31, 2011. The unassigned portion of the fund balance increased by only \$2,345,605 to \$29,770,570 while nonspendable funds increased by \$128,711 and committed and assigned funds increased by \$2,068,060 primarily due to the sale of the closed Sul Ross Elementary School property and the subsequent commitment of those funds by the Board to major facilities additions and renovations to accommodate school consolidations.

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 28.1 percent of total fund expenditures, while the total fund balance represents 32.9 percent.

The fund balance of the National School Breakfast and Lunch Program continued to improve. Revenues exceeded expenditures by \$449,386. The fund balance at year end totaled \$1,489,347 with \$178,641 invested in nonspendable inventories on hand.

Reserves in the debt service fund increased by \$763,028. The increase was due to a reversal in an adjustment in the instructional facilities allotment for the refunded 2001 bonds. The Texas Education Agency had revised its methodology on allocating the allotment to refunded debt and retroactively decreased the District's funding by \$528,182 for fiscal years 2004-05 through 2009-10. The original revenue adjustment had been recognized in the 2010-11 financial statements. The ending debt service reserve represents 19.5 percent of the annual debt service.

Proprietary Funds

As discussed previously, the Board of Trustees voted to close the Child Care Center in March, 2012 which was the District's only enterprise fund. Unassigned fund balances in the General Fund in the amounts of \$376,598 and \$250,000 were identified to cover the ending deficit in the fund and repay grant funds previously awarded to renovate a facility for the Center's use, respectively.

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 \$927,449. Fees paid to the third party administrator totaled \$94,368. Workers' compensation claims paid totaled \$237,839. Projected unpaid incurred claims of \$804,894 were accrued at August 31, 2012. Unemployment claims paid totaled \$398,298, an increase of \$184,303 or 86 percent, over the prior year. The increase in unemployment claims results from the elimination of positions in reducing the budget. Total claims expense increased by \$169,155 from \$466,982 in 2010-11. Ending net assets for the fund totaled \$489,735 or 57.5 percent of the accrued claims.

Waco Independent School District
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended August 31, 2012

GENERAL FUND BUDGETARY HIGHLIGHTS

On August 25, 2011, 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 \$112,742,711. This reflected a \$6,178,578 reduction from the previous year. Revenues were estimated at \$109,838,242, \$9,083,047 less than 2010-11, and were not anticipated to cover expenditures without further cuts. The original budget anticipated that revenues would be short of covering appropriations by \$2,904,469. The beginning fund balance, at budget adoption was projected at \$30,033,958. The actual beginning fund balance totaled \$30,363,618. The difference between projected and actual was due primarily to the carry forward of \$163,191 in outstanding purchase orders.

Consistent with prior years, federal funding, in the form of the Education Jobs Act, was included in both estimated revenues and appropriations in the General Fund. In September 2011, the grant funds, in the amount of \$2,590,113, were amended into a special revenue fund for accountability purposes. The funds were to be utilized to cover campus personnel costs. Federal revenues were amended upward by \$593,552 for E-rate funds awarded during the fiscal year and \$341,000 for additional reimbursements from the Student Health Related Services program (SHARS).

At year end, realized revenue exceeded budgeted estimates by \$1,650,196. \$829,035 of the increase was in the State Foundation School Program. The adjustments resulted from a higher than expected average daily attendance and slower than projected property values. Another \$621,441 was due to increases in SHARS reimbursements.

Adopted general fund appropriations increased \$8,378,822 during the year. While \$2,590,113 in the Education Jobs Act funding was amended into a special revenue fund, other budgeted expenditures were increased by an additional \$10,968,935. These increases included the roll forward of previously committed or assigned funds in the amount of \$1,709,929, encumbrances of \$222,816, E-rate projects of \$593,552, and \$341,000 in costs funded through SHARS reimbursements. Additionally, the expenditure budget was increased by \$7,860,402 to cover the costs of moving closed schools, renting portables, as well as funding additions and renovations to existing campuses to accommodate the closures.

Final appropriations were under expended by \$14,971,593. This amount included \$8,008,836 of unspent funds committed or assigned for facilities renovations and equipment replacement and \$468,666 in encumbrances rolled forward into 2012-13. Because of the uncertainty of future school funding and the District's desire to provide a salary increase to employees for the 2012-13 fiscal year, significant measures were taken during 2011-12 to reduce the operating budget. Immediately after the beginning of the year, \$571,000 in reductions were identified and made in centralized services, including the elimination of ten full-time and five part-time positions. Campus staffing was adjusted based on enrollments further reducing expenditures by \$684,000. The later school start in August 2012 reduced the number of work days accrued in the 2011-12 fiscal year, reducing expenditures by \$822,618.

In the summer of 2011, the administration began working on a school rezoning plan. With the near completion of four new schools, the intent of the rezoning was to maximize the use of District facilities, consolidate student populations, and close older buildings. Seven schools were consolidated and eight buildings closed, declared surplus or repurposed. In anticipation of the closures, positions becoming vacant remained unfilled achieving further savings.

The remaining \$4.6 million in underexpenditure was due to efforts of the administration to curtail spending in reaction of funding shortfalls. Savings were achieved in all functional categories through the elimination or deletion of positions, delays in filling positions, exploring less expensive solutions, and reducing travel, contracted service, and supply expenditures.

Results of operations increased the fund balance by \$4,542,376. Other financing sources and uses, i.e., the sale of real and personal property, the transfer to cover the deficit in the Child Care Center, and the repayment of grant funds, resulted in a net increase to fund balance of \$4,542,376. However, \$4,542,248 of unspent committed or assigned funds has been reappropriated in the 2012-13 fiscal year for expenditure.

Waco Independent School District
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended August 31, 2012

CAPITAL ASSET AND DEBT ADMINISTRATION

The District's investment in capital assets for its governmental activities as of August 31, 2012, totaled \$217,001,657, net of accumulated depreciation of \$104,139,846. Capital assets, net of accumulated depreciation increased \$12,539,305 from the August 31, 2011 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, 2012	August 31, 2011
Land	\$ 10,181,519	\$ 10,466,437
Buildings and improvements	188,254,692	169,959,399
Furniture and equipment	15,052,956	15,923,823
Construction in progress	3,512,490	8,112,693
Total capital assets, net of accumulated depreciation	<u>\$ 217,001,657</u>	<u>\$ 204,462,352</u>

Major capital asset acquisitions for the current fiscal year included:

- ♦ Construction of \$19,785,689 for bond projects authorized in the May 2008 bond election, primarily for the new Bell's Hill Elementary School and Middle School science lab renovations; and
- ♦ \$2,051,645 in capitalized furniture and equipment, including furnishing and equipping the newly completed schools.

These acquisitions were offset by depreciation and the sale of surplus property, including Sol Ross Elementary School. Additional information may be found in Note III-F, Capital Asset Activity, in the notes to the financial statements.

Debt Administration

At August 31, 2012, the District had debt obligations totaling \$201,956,714. \$5,734,918 in bonds was retired during the 2011-12 fiscal year through scheduled debt service payments. Bond payments due within one year total \$6,880,000.

Debt Summary		
	Governmental Activities	
	August 31, 2012	August 31, 2011
General obligation bonds	\$ 198,280,000	\$ 204,014,918
Unamortized bond issuance premium	4,345,942	4,623,646
Unamortized bond refunding loss	(1,481,833)	(1,652,522)
Accumulated accretion	812,605	822,965
Total long-term debt	<u>\$ 201,956,714</u>	<u>\$ 207,809,007</u>

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

Waco Independent School District
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended August 31, 2012

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

As the District began development of the 2012-13 budget, the Board of Trustees and administration were faced with flat revenue prospects. The District had struggled to compensate for a \$5.8 million loss in revenue in building the 2011-12 budget. Federal stimulus programs had served as a band-aid to State revenues during the past three years and would not be extended. Funding formula changes enacted by the 82nd Legislature began the process of phasing out target revenue and bringing State funding "back to formula". But, without the Education Jobs Act funding, the District was projected to lose an additional \$1.1 million.

Certified property values rose 2.5 percent over the prior year. 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. This increase in property value is projected to generate an additional \$336,990 in maintenance and operations tax collections. The State formula changes generated another \$1.6 million in revenue. As discussed, these increases did not cover the \$2.6 million loss in federal stimulus funding. However, changes in the Student Health Related Services (SHARS) program and a more aggressive approach to submitting claims pull in an additional \$1.0 million in revenue.

Adding to the problem was the fact that the District had adopted a budget for 2011-12 where expenditures exceeded revenues by \$2.9 million, no salary increases were given, and the District's contribution to employee health insurance was reduced by ten percent. It was expected, as the budget was adopted, that historical under spending of budgeted amounts would negate the \$2.9 million and leave the District's fund balance intact. However, the Board of Trustees and administration were committed to providing a salary increase for the 2012-13 school year and maintaining the contribution for health insurance.

The administration continued to identify opportunities for reductions. Discussions between the administration, Board of Trustees, and community took place and a common plan was devised for school consolidation. The closure of seven schools and eight buildings, coupled with almost \$1.0 million in budget reductions to centralized services, allowed the District to reduce budgeted expenditures by almost \$8.8 million providing the required funding to give a healthy salary increase. Teachers and professional and non-professional support staff received a 3.5 percent increase while administrators received 3.0 percent. The District's contribution to employee health insurance was continued at 2011-12 rates.

The District's tax rate for interest and sinking was decreased from \$0.32100 to \$0.31518 per \$100 of valuation. This decrease is in line with information provided taxpayers for the 2008 bond election. A change in the methodology utilized by the Texas Education Agency in allocating instructional facilities allotments for refunded bonds negatively impacted State funding for debt service for the 2010-11 fiscal year. However, during 2011-12, the Agency reversed its decision and reimbursed Districts for the adjustments. The 2011-12 statements reflect that adjustment. Although debt service requirements remain fairly stable through 2013 before beginning to decrease, the District makes every attempt to take advantage of deflated interest rates to save the community's tax dollars. In December 2012, the District issued taxable bonds to refund previously refunded 2004 bonds. It is expected that the refunding will generate about \$850,000 in total present value savings or \$112,000 per year for the remaining life of the bonds.

Job growth and increased sales tax collections signal that the Texas economy has emerged from the recent recession. By December 2011, Texas employers had replaced all of the jobs lost during the recession and increased jobs by an additional 1.4 percent in the year which followed. The Texas unemployment rate was 6.2 percent in November 2012 and has been at or below the national rate for 71 consecutive months. Fiscal 2012 state sales tax receipts were 12.6 percent higher than for fiscal 2011 and have continued to increase for 32 consecutive months. Single-family housing starts have increased over 20 percent as have existing home sales. Additionally, the consumer price index continues to increase.

Population growth in Central Texas is rising at a steady pace but not as quickly as that of the state as a whole, although the City of Waco's 2012 population shows some decline from the 2010 census. However, the region's population is younger than that of the state and nation and personal income growth outpaced the statewide rate. Health care remains a critical part of the regional economy. October's 2012 5.9 percent

Waco Independent School District
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended August 31, 2012

unemployment rate for the Waco Metropolitan Statistical Area (MSA) continues to better both State and national rates. This rate represents a 1.3 percent decrease in the October 2011 unemployment rate. Although in 2011 the Waco Chamber of Commerce reported the greatest gains in jobs creation and capital investment since 2007 with 972 new jobs reported and an increase in capital investment of \$182 million, the 2012 data is significantly different with only 177 new jobs created and \$7.4 million in capital investment. Several manufacturing companies are relocating to the area bring an additional 90 jobs to the area. Baylor University broke ground on two major projects totaling \$300 million, including a new stadium and the Texas Department of Transportation is investing an estimated \$2 billion in the continued expansion of the interstate. The project will add new access road bridges across the Brazos River.

Property values in the District increased by 2.5 percent for the 2012 tax year as 2011 tax collections held steady. State revenue estimates for 2012-13 were based on a projected average daily attendance of 13,804, a decrease of 48 from 2011-12. Based on counts from the second six weeks, it appears that projected ADA will be approximately 40 students less than that used for budget purposes. If current enrollment holds, it is expected that revenues will decline by over \$200,000.

Last year, the Board of Trustees voted to join one of the four lawsuits as a plaintiff against the State of Texas and the Texas Education Agency. The causes of action addressed in the various lawsuits include adequacy of funding to provide a general diffusion of knowledge; meaningful discretion in setting local tax rates for enrichment; inequities in funding due to target revenue disparities in combination with unequalized funding elements; and the State's failure to provide a rational funding system. The trial is currently ongoing and any decisions are not expected to have any great effect on school funding in the coming legislative session.

School closures and larger class sizes may pose significant challenges for the District and could negatively impact existing programs. All currently budgeted expenditures will continue to be evaluated in relation to how they support the District's educational strategies and contribute to the success of our students.

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 Assistant Superintendent of Business and Support Services, Waco Independent School District, 501 Franklin Avenue, Waco, Texas 76701.

Basic Financial Statements

Waco Independent School District

Statement of Net Assets

August 31, 2012

Data Control Codes		Primary Government		
		1	2	3
		Governmental Activities	Business Type Activities	Governmental Activities
	ASSETS			
1110	Cash and cash equivalents	\$ 52,302,647	-	52,302,647
1225	Property taxes receivable, net of allowance for uncollectibles of \$2,496,568	1,360,063	-	1,360,063
1240	Due from other governments	3,241,050	-	3,241,050
1250	Accrued interest receivable	-	-	-
1260	Internal balances	45,653	2,045	47,698
1290	Other receivables	172,554	-	172,554
1310	Inventories	385,559	-	385,559
1410	Deferred expenses	133,152	-	133,152
1420	Capitalized bond and other debt issuance costs	260,770	-	260,770
	Capital assets, net of accumulated depreciation:			
1510	Land	10,181,519	-	10,181,519
1520	Buildings and improvements	188,254,692	-	188,254,692
1530	Furniture and equipment	15,052,956	-	15,052,956
1580	Construction in progress	3,512,490	-	3,512,490
	Total assets	274,903,105	2,045	274,905,150
	LIABILITIES			
2110	Accounts payable	5,303,022	2,045	5,305,067
2140	Accrued interest payable	435,321	-	435,321
2150	Payroll deductions and withholdings	567,513	-	567,513
2160	Accrued wages	672,825	-	672,825
2170	Due to fiduciary funds	26,382	-	26,382
2180	Due to other governments	274,523	-	274,523
2200	Accrued expenses	804,894	-	804,894
2300	Unearned revenue	826,517	-	826,517
	Noncurrent liabilities:			
2510	Due within one year	6,880,000	-	6,880,000
2510	Due after one year	195,076,715	-	195,076,715
	Total liabilities	210,867,712	2,045	210,869,757
	NET ASSETS			
3200	Invested in capital assets, net of related debt	23,918,311	-	23,918,311
	Restricted for:			
3800	Debt service	2,188,527	-	2,188,527
3900	Unrestricted	37,928,555	-	37,928,555
	Total net assets	\$ 64,035,393	-	64,035,393

Waco Independent School District
Statement of Activities
For the Year Ended August 31, 2012

		Net (Expense) Revenue and Changes in Net					
Data Control Codes		Program Revenues			Assets		
		1	3	4	6	7	8
		Primary Government					
		Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business Type Activities	Total
Primary Government:							
	Governmental Activities:						
11	Instruction	\$ 69,553,287	750,855	14,968,588	(53,833,844)	-	(53,833,844)
12	Instructional resource and media services	1,171,223	-	77,036	(1,094,187)	-	(1,094,187)
13	Curriculum and instructional staff development	7,162,676	-	4,671,642	(2,491,034)	-	(2,491,034)
21	Instructional leadership	2,715,340	-	453,099	(2,262,241)	-	(2,262,241)
23	School leadership	8,442,081	152,398	846,231	(7,443,452)	-	(7,443,452)
31	Guidance, counseling, and evaluation services	3,950,581	46,803	1,082,299	(2,821,479)	-	(2,821,479)
32	Social work services	620,481	-	49,231	(571,250)	-	(571,250)
33	Health services	1,101,021	-	173,978	(927,043)	-	(927,043)
34	Student transportation	2,985,457	10,510	1,392,767	(1,582,180)	-	(1,582,180)
35	Food services	9,809,566	802,859	9,199,732	193,025	-	193,025
36	Cocurricular/extracurricular activities	3,873,666	447,352	259,315	(3,166,999)	-	(3,166,999)
41	General administration	3,544,327	173,558	321,803	(3,048,966)	-	(3,048,966)
51	Plant maintenance and operations	14,953,331	107,162	604,372	(14,241,797)	-	(14,241,797)
52	Security and monitoring services	1,578,323	37,443	59,492	(1,481,388)	-	(1,481,388)
53	Data processing services	3,047,696	-	1,260,341	(1,787,355)	-	(1,787,355)
61	Community services	1,687,808	1,485	1,102,664	(583,659)	-	(583,659)
72	Interest on long-term debt	10,526,975	-	4,239,124	(6,287,851)	-	(6,287,851)
73	Bond issuance cost and fees	7,050	-	-	(7,050)	-	(7,050)
81	Facilities acquisition and construction	2,578,887	-	158,269	(2,420,618)	-	(2,420,618)
93	Payments to fiscal agents/member districts of shared services arrangements	186,303	37,443	3,711	(145,149)	-	(145,149)
95	Payments related to Juvenile Justice Alternative Education Program	491,733	-	-	(491,733)	-	(491,733)
97	Payments to tax increment zones	2,839,129	-	-	(2,839,129)	-	(2,839,129)
99	Other intergovernmental charges	583,310	-	-	(583,310)	-	(583,310)
	(TG) Total governmental activities	153,410,251	2,567,868	40,923,694	(109,918,689)	-	(109,918,689)
	Business-type Activities:						
01	Early Childhood Development Center	224,795	117,808	-	-	(106,987)	(106,987)
		224,795	117,808	-	-	(106,987)	(106,987)
		\$ 153,635,046	2,685,676	40,923,694	(109,918,689)	(106,987)	(110,025,676)
Data Control Codes							
	General revenues:						
	Taxes:						
MT	Property taxes, levied for general purposes				39,895,625	-	39,895,625
DT	Property taxes, levied for debt service				12,349,724	-	12,349,724
SF	State aid-formula grants				61,305,521	-	61,305,521
IE	Investment earnings				196,319	-	196,319
MI	Miscellaneous				651,999	-	651,999
	Special Items:						
S1	Gain on disposal of land, buildings, equipment				630,002	-	630,002
S2	Repayment of grant funds				(250,000)	-	(250,000)
S3	Impairment of assets from school closures				(527,262)	-	(527,262)
FR	Transfers In (Out)				(376,598)	376,598	-
TG	Total general revenues				113,875,330	376,598	114,251,928
CN	Change in net assets				3,956,641	269,611	4,226,252
NB	Net assets, beginning				60,078,752	(269,611)	59,809,141
NE	Net assets, ending				\$ 64,035,393	-	64,035,393

Waco Independent School District
Balance Sheet
Governmental Funds
August 31, 2012

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	\$ 38,178,182	231,892	3,005,405	10,659,019	228,149	52,302,647
1120 Investments	-	-	-	-	-	-
1225 Property taxes receivable (net of allowances for uncollectibles)	1,043,140	-	316,923	-	-	1,360,063
1240 Due from other governments	160,242	222,745	119,486	-	2,738,577	3,241,050
1250 Accrued interest receivable	-	-	-	-	-	-
1260 Due from other funds	3,221,190	1,231,538	-	-	713,055	5,165,783
1290 Other receivables	61,265	-	-	-	111,289	172,554
1310 Inventories	206,918	178,641	-	-	-	385,559
1410 Prepaid items	132,752	-	-	-	400	133,152
Total assets	<u>\$ 43,003,689</u>	<u>1,864,816</u>	<u>3,441,814</u>	<u>10,659,019</u>	<u>3,791,470</u>	<u>62,760,808</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
2110 Accounts payable	\$ 2,323,770	356,757	-	1,875,766	700,125	5,256,418
2150 Payroll deductions and withholdings payable	563,813	-	-	-	3,700	567,513
2160 Accrued wages payable	622,042	2,260	-	-	48,523	672,825
2170 Due to other funds	3,308,948	-	5,364	983,259	2,190,174	6,487,745
2180 Due to other governments	790	-	-	-	273,733	274,523
2300 Deferred revenues	1,278,332	16,452	316,922	-	575,215	2,186,921
Total liabilities	<u>8,097,695</u>	<u>375,469</u>	<u>322,286</u>	<u>2,859,025</u>	<u>3,791,470</u>	<u>15,445,945</u>
Fund balances:						
Nonspendable fund balance:						
3410 Investments in inventory	206,918	178,641	-	-	-	385,559
3430 Prepaid items	132,752	-	-	-	-	132,752
Restricted fund balance:						
3450 Federal or state funds grant restriction	-	1,310,706	-	-	-	1,310,706
3470 Capital acquisition and contractual obligation	-	-	-	7,799,994	-	7,799,994
3480 Retirement of long-term debt	-	-	3,119,528	-	-	3,119,528
Committed fund balance:						
3510 Construction and other major improvements	3,237,609	-	-	-	-	3,237,609
3530 Capital expenditures for equipment	518,297	-	-	-	-	518,297
Assigned fund balance:						
3550 Construction and other major improvements	247,500	-	-	-	-	247,500
3570 Capital expenditures for equipment	198,889	-	-	-	-	198,889
3590 Other assigned fund balance	593,459	-	-	-	-	593,459
3600 Unassigned fund balance	29,770,570	-	-	-	-	29,770,570
Total fund balances	<u>34,905,994</u>	<u>1,489,347</u>	<u>3,119,528</u>	<u>7,799,994</u>	<u>-</u>	<u>47,314,863</u>
Total liabilities and fund balances	<u>\$ 43,003,689</u>	<u>1,864,816</u>	<u>3,441,814</u>	<u>10,659,019</u>	<u>3,791,470</u>	<u>62,760,808</u>

Waco Independent School District
Reconciliation of Fund Balances of Governmental Funds
to Net Assets of Governmental Activities
August 31, 2012

Data Control Codes			
3600	Fund balances - total governmental funds (Exhibit C-1)	\$	47,314,863
	Amounts reported for governmental activities in the statement of net assets (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 \$302,912,856 and the accumulated depreciation was \$98,450,504.		204,749,949
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.		(208,257,980)
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 2012 capital outlays and debt principal payments is to increase net assets.		26,360,217
4	The 2012 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets.		(7,981,795)
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 assets.		489,735
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 assets.		1,360,404
	Net assets of governmental activities (Exhibit A-1)	\$	64,035,393

Waco Independent School District
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended August 31, 2012

Data Control Codes	10 General Fund	24 National Breakfast & Lunch Fund	50 Debt Service Fund	60 Capital Projects Funds	Other Governmental Funds	98 Total Governmental Funds
REVENUES						
5700 Local and intermediate sources	\$ 41,357,603	803,197	12,510,139	60,630	1,527,288	56,258,857
5800 State program revenues	65,324,199	80,994	4,239,124	-	3,108,692	72,753,009
5900 Federal program revenues	3,236,409	8,720,648	-	-	16,963,395	28,920,452
5020 Total revenues	<u>109,918,211</u>	<u>9,604,839</u>	<u>16,749,263</u>	<u>60,630</u>	<u>21,599,375</u>	<u>157,932,318</u>
EXPENDITURES						
Current:						
6011 Instruction	53,465,712	-	-	-	12,876,534	66,342,246
6012 Instructional resources and media services	1,003,309	-	-	-	26,219	1,029,528
6013 Curriculum and instructional staff development	2,604,647	-	-	-	4,566,405	7,171,052
6021 Instructional leadership	2,252,014	-	-	-	359,111	2,611,125
6023 School leadership	7,758,956	-	-	-	613,877	8,372,833
6031 Guidance, counseling, and evaluation services	3,096,130	-	-	-	837,148	3,933,278
6032 Social work services	607,224	-	-	-	15,226	622,450
6033 Health services	1,013,551	-	-	-	65,497	1,079,048
6034 Student transportation services	2,608,287	-	-	-	-	2,608,287
6035 Food services	-	8,935,203	-	-	618,003	9,553,206
6036 Cocurricular/extracurricular activities	3,130,618	-	-	-	183,179	3,313,797
6041 General administration	3,407,581	-	-	-	14,906	3,422,487
6051 Plant maintenance and operations	14,566,960	220,250	-	-	96,769	14,883,979
6052 Security and monitoring services	1,506,607	-	-	-	35,904	1,542,511
6053 Data processing services	3,084,948	-	-	-	-	3,084,948
6061 Community services	548,122	-	-	-	1,088,890	1,637,012
6093 Payments to fiscal agent/member districts of shared services arrangements	142,865	-	-	-	43,438	186,303
6095 Payments to Juvenile Justice Alternative Education Program	491,733	-	-	-	-	491,733
6097 Payments to tax increment zone	2,259,935	-	579,194	-	-	2,839,129
6099 Other intergovernmental charges	583,310	-	-	-	-	583,310
Debt service:						
6071 Principal	705,000	-	5,029,917	-	-	5,734,917
6072 Interest	256,601	-	10,374,574	-	-	10,631,175
6073 Bond issuance cost and fees	4,500	-	2,550	-	-	7,050
Capital outlay:						
6081 Facilities acquisition and construction	1,051,330	-	-	20,410,848	158,269	21,620,447
6030 Total expenditures	<u>106,149,940</u>	<u>9,155,453</u>	<u>15,986,235</u>	<u>20,410,848</u>	<u>21,599,375</u>	<u>173,301,851</u>
1100 Excess (deficiency) of revenues over (under) expenditures	<u>3,768,271</u>	<u>449,386</u>	<u>763,028</u>	<u>(20,350,218)</u>	<u>-</u>	<u>(15,369,533)</u>
OTHER FINANCING SOURCES						
7912 Sale of real and personal property	1,400,703	18,271	-	-	-	1,418,974
7949 Transfers out	(376,598)	-	-	-	-	(376,598)
Total other financing sources	<u>1,024,105</u>	<u>18,271</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,042,376</u>
SPECIAL ITEMS						
8912 Repayment of grant funds	(250,000)	-	-	-	-	(250,000)
1200 Net change in fund balances	4,542,376	467,657	763,028	(20,350,218)	-	(14,577,157)
0100 Fund balances, beginning	30,363,618	1,021,690	2,356,500	28,150,212	-	61,892,020
3000 Fund balances, ending	<u>\$ 34,905,994</u>	<u>1,489,347</u>	<u>3,119,528</u>	<u>7,799,994</u>	<u>-</u>	<u>47,314,863</u>

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, 2012

Net changes in fund balances - total governmental funds (Exhibit C-3)	\$ (14,577,157)
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 assets.	13,328,277
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 assets 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 assets.	(788,972)
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 assets. 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.	5,839,117
The District uses internal service funds to charge the costs of certain activities, such as self-insurance and printing, to appropriate functions in other funds. The net income of internal service funds are reported with governmental activities. The net effect of this consolidation is to increase net assets.	196,944
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 assets.	(41,568)
Changes in net assets of governmental activities (Exhibit B-1)	\$ <u><u>3,956,641</u></u>

Waco Independent School District
Statement of Net Assets
Proprietary Fund
August 31, 2012

	<u>Business-Type Activities</u>	<u>Governmental Activities</u>
	<u>Enterprise Fund</u>	<u>Internal Service Fund</u>
ASSETS		
Current assets:		
Due from other funds	\$ 2,045	1,341,233
Total assets	<u>2,045</u>	<u>1,341,233</u>
LIABILITIES		
Current liabilities:		
Accounts payable	2,045	46,604
Accrued expenses	<u>-</u>	<u>804,894</u>
Total liabilities	<u>2,045</u>	<u>851,498</u>
NET ASSETS		
Unrestricted net assets	<u>-</u>	<u>489,735</u>
Total net assets	<u>\$ -</u>	<u>489,735</u>

Waco Independent School District
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Fund
Year Ended August 31, 2012

	Business-Type Activities	Governmental Activities
	Enterprise Fund	Internal Service Fund
Operating revenues:		
Charges for services	\$ 117,808	-
Assessments to other funds	-	927,449
Total operating revenues	<u>117,808</u>	<u>927,449</u>
Operating expenses:		
Payroll costs	198,315	-
Professional and contracted services	17,140	94,368
Supplies and materials	8,690	-
Other operating expenses	650	-
Claims expense	-	636,137
Total operating expenses	<u>224,795</u>	<u>730,505</u>
Operating income (loss)	<u>(106,987)</u>	<u>196,944</u>
Non-capital financing activities:		
Transfer in	376,598	-
Total non-operating revenue	<u>376,598</u>	<u>-</u>
Change in Net Assets	269,611	196,944
Total net assets, beginning	<u>(269,611)</u>	<u>292,791</u>
Total net assets, ending	<u>\$ -</u>	<u>489,735</u>

Waco Independent School District

Statement of Cash Flows
Proprietary Fund

For the Year Ended August 31, 2012

	Business-Type Activities	Governmental Activities
	Enterprise Fund	Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from charges for services	\$ 117,808	-
Cash received from assessments to other funds	-	927,449
Cash payments to employees for services	(198,315)	-
Cash payments to suppliers	(8,690)	-
Cash payments for insurance claims	-	(833,081)
Cash payments for other operating expenses	(17,790)	(94,368)
Net cash provided by operating activities	(106,987)	-
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfer in	106,987	-
Net cash provided by noncapital and related financing activities	106,987	-
Net increase in cash and cash equivalents	-	-
Cash and cash equivalents at beginning of year	-	-
Cash and cash equivalents at end of year	\$ -	-
Reconciliation of operating income to net cash provided by operating activities:		
Operating loss	\$ (106,987)	196,944
Effects of increases and decreases in current assets and liabilities:		
Increase in due from other funds	(2,045)	(184,590)
Increase (decrease) in accounts payable	(736)	22,802
Decrease in accrued wages payable	(555)	-
Increase in due to other funds	110,323	-
Decrease in claims liability	-	(35,156)
Net cash provided by operating activities	\$ -	-

Waco Independent School District
Statement of Fiduciary Net Assets
Fiduciary Funds
August 31, 2012

	<u>Private Purpose Trust Fund</u>	<u>Agency Fund</u>
ASSETS		
Cash and cash equivalents	\$ 14,269	517,469
Accrued interest	20	-
Due from other funds	<u>278</u>	<u>26,104</u>
Total assets	<u>14,567</u>	<u>543,573</u>
LIABILITIES		
Accounts payable	-	41,223
Due to other funds	-	47,698
Due to student groups	<u>-</u>	<u>454,652</u>
Total liabilities	<u>-</u>	<u>543,573</u>
NET ASSETS		
Restricted for scholarships	<u>14,567</u>	
Total net assets	<u>\$ 14,567</u>	

Waco Independent School District
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Year Ended August 31, 2012

	<u>Private Purpose Trust Fund</u>
ADDITIONS	
Contributions:	
Interest on investments	\$ <u>5</u>
Total contributions	<u>5</u>
DEDUCTIONS	
Scholarships awarded	<u>5</u>
Total deductions	<u>5</u>
Change in net assets	-
Net assets, beginning	<u>14,567</u>
Net assets, ending	\$ <u><u>14,567</u></u>

Waco Independent School District

Notes to the Financial Statements For the Year Ended August 31, 2012

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 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 E-9 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 Assets 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, 2012

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 Assets 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 Assets. 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 may 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 Assets. The fund equity is segregated into invested in capital assets net of related debt, restricted net assets, and unrestricted net assets. 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, 2012

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:

Enterprise Funds – An enterprise fund may be used to report any activity for which a fee is charged to external users for goods or services. Generally Accepted Accounting Principles also require the use of an enterprise fund for any activity whose principal external revenue sources meet any of the following criteria: (a) debt backed solely by fees and charges; (b) legal requirement to recover cost; or (c) policy decision to recover cost. In practice, enterprise funds frequently are used to account for activities whose costs are only partially funded by fees and charges. The District has utilized an enterprise fund to account for activities related to the Child Care Center.

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

Fiduciary Funds:

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

Agency Funds -- The District accounts for resources held for others in a custodial capacity in agency funds. The District's Agency Fund(s) include activity funds of student groups, a regional purchasing cooperative, and regional administration for UIL athletics. Since agency funds are custodial in nature, they do not involve the measurement of operations.

Waco Independent School District

Notes to the Financial Statements For the Year Ended August 31, 2012

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.
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 expendable 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 more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost, if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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.

Waco Independent School District

Notes to the Financial Statements For the Year Ended August 31, 2012

E. Other Accounting Policies (continued)

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 assets. 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.

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. 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.

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 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.

Waco Independent School District

Notes to the Financial Statements For the Year Ended August 31, 2012

E. Other Accounting Policies (continued)

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.

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 (the 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 will approximate the 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 Texas Education Agency 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 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. 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-4 and J-5. All budget appropriations lapse at year-end.

Waco Independent School District

Notes to the Financial Statements For the Year Ended August 31, 2012

A. Budgetary Data (continued)

- 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 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, 2012.

III. Detailed Notes on All Funds and Account Groups

A. Deposits and Investments

- 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 \$31,051,958 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, 2012, 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	\$ 27,754,359	27,236,890	517,469
Cash equivalents:			
Certificates of deposit	14,269	-	14,269
Insured Cash Shelter	5,051,118	5,051,118	-
Money market accounts	1,010,978	1,010,978	-
Public funds investment pools	19,003,659	19,003,659	-
Total cash equivalents	25,080,024	25,065,755	14,269
Total cash and cash equivalents	52,834,383	52,302,645	531,738
Investments	-	-	-
Total deposits and investments	\$ 52,834,383	52,302,645	531,738

Waco Independent School District

Notes to the Financial Statements For the Year Ended August 31, 2012

13. Deposits and Investments (continued)

2. A summary of investment accounts are as follows:

Certificates of Deposit – The District has multiple CDs at various banks. The last of the certificates of deposit for bond proceeds had matured at year end. The remaining certificates of deposit 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.

MBIA Municipal Investors Service Corporation -- MBIA is a public funds investment pool created as a wholly-owned subsidiary of a publicly traded company. MBIA markets the pool under the Cooperative Liquid Asset Securities System (CLASS) which enables local governments to pool funds with other governmental units. Cutwater Investor Services Corp., a subsidiary of Cutwater Asset Management, serves as the program administrator and Wells Fargo Bank Texas, N.A. serves as custodian for the fund. CLASS invests in repurchase agreements, government securities, and commercial paper. The CLASS fund operates in a manner consistent with the SEC's Rule 2a-7 of the Investment Company Act of 1940. The CLASS fund uses amortized cost rather than market value to report net assets to compute share prices.

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 in a manner 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, 2012**

A. 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, 2012, 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 shall 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 fund types 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.

Waco Independent School District

Notes to the Financial Statements For the Year Ended August 31, 2012

A. Deposits and Investments (continued)

4. Weighted average maturity of investments were as follows:

	Fair Value	Weighted Average Maturity (in Days)
Cash equivalents:		
Fiduciary Funds	14,269	733
Insured Cash Shelter	5,051,118	1
Money market accounts	1,010,978	1
Public funds investment pools:		
Lone Star Investment Pool (Lone Star)	1,491,805	1
MBIA Municipal Investors Service Corporation (MBIA)	1,088,926	1
Texas Local Government Investment Pool (TexPool)	13,726,831	1
Texas Short Term Asset Reserve Fund (TexStar)	176,849	1
TexasTERM Local Government Investment Pool (TexasDAILY)	2,519,248	1
Total deposits and investments	<u>\$ 25,080,024</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, 2011, on which the 2011 levy was based, was \$3,939,084,113. The District's maintenance and operations rate levied in 2011 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 2011 was \$0.321 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.

Waco Independent School District

Notes to the Financial Statements For the Year Ended August 31, 2012

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, 2012, consisted of the following amounts:

Funds	Receivable	Payable
General fund	\$ 3,221,190	3,308,948
National School Breakfast and Lunch fund	1,231,538	-
Debt service fund	-	5,364
Capital projects funds	-	983,259
Other non-major governmental funds	713,055	2,190,174
Enterprise fund	2,045	-
Internal service fund	1,341,233	-
Private purpose trust fund	278	-
Agency funds	26,104	47,698
	<u>\$ 6,535,443</u>	<u>6,535,443</u>

E. Deferred 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. Deferred revenue at August 31, 2012 consisted of the following:

	General Fund	National School Lunch and Breakfast Fund	Debt Service Fund	Other Governmental Funds	Total
Unavailable:					
Delinquent property taxes	\$ 1,043,482	-	316,922	-	1,360,404
Unearned:					
State revenue	234,850	-	-	-	234,850
Grant draw downs received prior to meeting all eligibility requirements:					
USDA Commodities	-	16,452	-	-	16,452
Other federal programs	-	-	-	21,719	21,719
State programs:					
Professional Staff Development	-	-	-	2,269	2,269
Advanced Placement Incentives	-	-	-	26,554	26,554
Prekindergarten Expansion Grant	-	-	-	6,384	6,384
School Leadership Pilot	-	-	-	5,229	5,229
TWC Apprenticeship	-	-	-	37,164	37,164
Texas Ready to Read	-	-	-	8,341	8,341
State Deaf Education	-	-	-	22,001	22,001
Challenge Academy	-	-	-	43,896	43,896
Regional Day School for the Deaf	-	-	-	140,749	140,749
Foundation Grants	-	-	-	120,301	120,301
Local grants	-	-	-	140,608	140,608
	<u>\$ 1,278,332</u>	<u>16,452</u>	<u>316,922</u>	<u>575,215</u>	<u>2,186,921</u>

Waco Independent School District

**Notes to the Financial Statements
For the Year Ended August 31, 2012**

F. Capital Asset Activity

Capital asset activity for the District for the year ended August 31, 2012, was as follows:

	Balance September 1, 2011	Additions	Deletions	Reclassifications	Impairments	Balance August 31, 2012
<i>Capital assets, not being depreciated:</i>						
Land	\$ 10,466,437	-	(284,918)	-	-	10,181,519
Construction in progress	8,112,693	19,785,689	-	(24,385,892)	-	3,512,490
Total capital assets, not being depreciated	<u>18,579,130</u>	<u>19,785,689</u>	<u>(284,918)</u>	<u>(24,385,892)</u>	<u>-</u>	<u>13,694,009</u>
<i>Capital assets, being depreciated:</i>						
Buildings and improvements	256,686,562	-	(2,964,204)	24,385,892	-	278,108,250
Furniture, equipment, and vehicles	27,647,164	2,051,645	(359,565)	-	-	29,339,244
Total capital assets, being depreciated	<u>284,333,726</u>	<u>2,051,645</u>	<u>(3,323,769)</u>	<u>24,385,892</u>	<u>-</u>	<u>307,447,494</u>
Less accumulated depreciation for:						
Buildings and improvements	86,727,163	5,085,083	(2,485,950)	-	527,262	89,853,558
Furniture, equipment, and vehicles	11,723,341	2,896,712	(333,765)	-	-	14,286,288
Total accumulated depreciation	<u>98,450,504</u>	<u>7,981,795</u>	<u>(2,819,715)</u>	<u>-</u>	<u>527,262</u>	<u>104,139,846</u>
Total capital assets, being depreciated, net	<u>185,883,222</u>	<u>(5,930,150)</u>	<u>(504,054)</u>	<u>24,385,892</u>	<u>(527,262)</u>	<u>203,307,648</u>
Governmental activities capital assets, net	\$ <u>204,462,352</u>	<u>13,855,539</u>	<u>(788,972)</u>	<u>-</u>	<u>(527,262)</u>	<u>217,001,657</u>

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

Function	Description	Amount
11	Instruction	\$ 3,657,038
12	Instructional resources and media services	143,664
13	Curriculum and instructional staff development	15,235
21	Instructional leadership	108,154
23	School leadership	86,973
31	Guidance, counseling, and evaluation services	25,181
33	Health services	23,943
34	Student transportation	615,146
35	Food services	353,973
36	Extracurricular activities	606,074
41	General administration	136,487
51	Plant maintenance and operations	189,212
52	Security and monitoring services	37,782
53	Data processing services	208,433
61	Community services	52,765
81	Facilities acquisition and construction	<u>1,721,735</u>
	Total depreciation expense - governmental activities	\$ <u>7,981,795</u>

Waco Independent School District

Notes to the Financial Statements For the Year Ended August 31, 2012

G. Impairment of Capital Assets

On March 29, 2012 the Board approved a consolidation which closed seven schools. The Board also approved the closing of the District's employee Child Care Center. Four of the buildings were repurposed for new or existing programs, four have been temporarily closed pending possible reprogramming, and seven buildings were declared surplus for possible sale or demolition.

These closures were assessed to determine whether an impairment of assets had occurred. It is estimated that the carrying value of the reprogrammed campuses replicates the current cost to replace the current level of service. The buildings, which have been temporarily closed pending reprogramming, will also be held at the carrying value. With the exception of Sul Ross Elementary School, the buildings declared surplus for sale or demolition will be written down to the estimated value of the improvements. Sul Ross Elementary School was sold prior to year end and the gain on the sale of the property has been recognized in the statements. The net losses from the permanent closures are reported as a special item in the statement of activities.

For purposes of estimating the impairment, land is considered to be a separate capital asset from buildings and depreciable improvements and is evaluated separately so that unrealized gain in the fair value of land is not used to offset an impairment loss on buildings.

The following is a summary of the carrying amount of impaired capital assets at August 31, 2012:

Building	Reprogrammed Use	Carrying Value	Appraised Value Less Land Value	Recognized Impairment Loss
<u>Buildings Closed and Reprogrammed for Other Use:</u>				
Lake Air Middle School	Lake Waco Montessori	\$ 2,010,111	5,209,119	
North Waco Elementary School	Challenge Academy	95,333	692,000	-
University Middle School	Cesar Chavez Middle	782,399	-	-
<u>Buildings Temporarily Closed for Possible Reprogramming:</u>				
Child Care Center		1,154,353	246,000	-
Lake Waco Montessori School		374,472	593,000	-
Meadowbrook Elementary School		501,240	379,000	-
Viking Hills Elementary School		1,236,904	579,000	-
<u>Buildings Permanently Closed:</u>				
Alternative School		-	42,000	-
Brazos Middle School		1,057,880	746,000	311,880
Challenge Academy		39,725	-	39,725
Old Doris Miller YMCA		-	-	-
STARS High School		-	70,000	-
WISD Playhouse		232,367	56,709	175,657
Total Impaired Assets		<u>\$ 7,484,784</u>	<u>8,612,828</u>	<u>527,262</u>

H. Deficits in Individual Funds

In December, 2010, the District opened a child care center to assist in recruiting and retaining qualified teachers. Because the center was intended to be self-sustaining through user charges, the operation was accounted for as an Enterprise fund. At August 31, 2011, after its first year of operation, the fund had a deficit of \$269,611. While performance improved for the year ended August 31, 2012, results from operations further reduced net assets by an additional \$106,987 bringing the deficit to \$376,594. On March 29, 2012 the Board voted to close the Center, cover the fund deficit, and return \$250,000 in grant funds previously awarded and recognized. Both the deficit and repayment of the grant were covered by the General Fund unassigned fund balance.

Waco Independent School District

Notes to the Financial Statements For the Year Ended August 31, 2012

I. 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, 2012:

	Balance September 1, 2011	Increases	Decreases	Balance August 31, 2012	Due Within One Year
Bonds payable:					
General obligation bonds, maintenance tax notes and lease revenue bonds	\$ 204,014,918	-	(5,734,918)	198,280,000	6,880,000
Deferred amounts:					
For issuance premiums	4,623,646	-	(277,704)	4,345,942	-
On refunding	(1,652,522)	-	170,689	(1,481,833)	-
Accumulated accretion	822,965	295,808	(306,168)	812,605	-
Total long-term debt payable	\$ 207,809,007	295,808	(6,148,101)	201,956,714	6,880,000

General obligation debt at August 31, 2012, comprises the following issues:

\$18,500,000 Schoolhouse building bonds, series 2001 due in annual installments of \$300,000 to \$1,530,000 through August, 2022; interest at 4.10% to 5.50%	\$ 3,945,000
\$14,234,993 Unlimited tax refunding bonds, series 2004 due in annual installments of \$170,000 to \$1,830,000 through February, 2020; interest at 2.00% to 5.00%	12,290,000
\$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%	4,420,000
\$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%	120,755,000
\$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%	7,245,000
Total general obligation bonds	193,840,000
\$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%	2,290,000
\$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%	2,150,000
Total long-term debt	\$ 198,280,000

Waco Independent School District

Notes to the Financial Statements For the Year Ended August 31, 2012

I. Long-Term Debt (continued)

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
2013	\$ 6,140,000	9,270,661	15,410,661
2014	5,785,000	9,134,374	14,919,374
2015	5,995,000	8,897,459	14,892,459
2016	5,330,000	9,476,894	14,806,894
2017	6,335,000	8,463,806	14,798,806
2018-2022	32,135,000	41,759,326	73,894,326
2023-2027	31,045,000	30,382,014	61,427,014
2028-2032	39,270,000	21,616,288	60,886,288
2033-2037	50,210,000	10,675,000	60,885,000
2038	11,595,000	579,750	12,174,750
	<u>193,840,000</u>	<u>150,255,572</u>	<u>344,095,572</u>
Less interest accretion in future years	<u>2,581,297</u>		
Total principal due as of August 31, 2012	<u>\$ 191,258,703</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, 2012.

Summary information for the capital appreciation bonds is as follows:

Series	Original Amount Outstanding	Accreted Value August 31, 2012
Unlimited Tax Refunding Bonds, Series 2006	\$ 422,085	536,573
Unlimited Tax School Building Bonds, Series 2009	4,535,012	5,199,778
Unlimited Tax Refunding Bonds, Series 2010	679,001	689,820
Total	<u>\$ 5,636,098</u>	<u>6,426,171</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
2013	\$ 740,000	223,201	963,201
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	980,000	82,775	1,062,775
Totals	<u>\$ 4,440,000</u>	<u>810,288</u>	<u>5,250,288</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, 2012, \$25,620,000 of bonds considered defeased are still outstanding.

Waco Independent School District

Notes to the Financial Statements For the Year Ended August 31, 2012

J. 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 6.4 percent for fiscal years 2011, 2010, and 2009, a state contribution rate of 6.0 percent for fiscal year 2012 and 6.4 percent for fiscal years 2011 and 2010. In certain instances the reporting district is required to make all or a portion of the state's 6.4 percent 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 percent of the member's annual compensation and a state contribution rate of not less than 6.0 percent and not more than 10.0 percent 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:

	Year Ended August 31, 2012	Year Ended August 31, 2011	Year Ended August 31, 2010
State TRS on-behalf contributions	\$ 3,097,811	3,635,386	3,536,208
District contributions for above statutory minimum	615,304	786,532	728,741
Total	\$ 3,713,115	4,421,918	4,264,949

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, 2012

K. 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. The TRS issues a publicly available financial report that includes financial statements and supplementary information for TRS-Care. That report may be obtained by visiting the TRS 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. The State of Texas and active public school employee contribution rates were 1.0 percent and 0.65 percent of public school payroll respectively, with school districts contributing a percentage of paid wages set at 0.55 percent for fiscal years 2012, 2011, and 2010. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25 percent or greater than 0.75 percent of the salary of each active employee of the public school. The contributions to TRS-Care made by the State, active employees, and the District for fiscal years 2012, 2011, and 2010 are as follows:

	Year Ended August 31, 2012	Year Ended August 31, 2011	Year Ended August 31, 2010
State TRS on-behalf contributions	\$ 516,302	697,661	694,004
Active member contributions	502,609	550,318	497,984
District contributions to TRS Care	584,422	602,022	629,063
Total	\$ 1,603,333	1,850,001	1,821,051

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 \$197,251, \$203,872, and \$195,271 for fiscal years 2012, 2011, and 2010, 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 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 assets.

Early Retiree Reinsurance Program (ERRP) is a provision of the Patient Protection and Affordable Care Act (PPACA) and provides reimbursement to plan sponsors for a portion of the cost of providing health benefits to retirees between the ages of 55-64 and their covered dependants regardless of age. An "early retiree" is defined as a plan participant aged 55-64 who is not eligible for Medicare and is not covered by an active employee of the plan sponsor. This temporary program is available to help employers continue to provide coverage to early retirees.

TRS has been certified for this program and has received funds from the ERRP program. These funds are allocated to reporting agencies on the same basis as the Medicare Part D – On Behalf Payments (GASB 24) reporting and is reported on the annual financial statements as on-behalf payments. These on-behalf payments for the District totaled \$186,536 for fiscal year 2012.

Waco Independent School District

**Notes to the Financial Statements
For the Year Ended August 31, 2012**

L. 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, 2011, 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.

<u>Fund</u>	<u>State Entitlements</u>	<u>Federal Grants</u>	<u>Other Governments</u>	<u>Total</u>
General	\$ 152,754	7,488	-	160,242
Special Revenue	167,265	2,759,243	34,814	2,961,322
Debt Service	119,486	-	-	119,486
Total	<u>\$ 439,505</u>	<u>2,766,731</u>	<u>34,814</u>	<u>3,241,050</u>

M. Revenue from Local and Intermediate Sources

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

	<u>General Fund</u>	<u>National School Breakfast and Lunch Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Funds</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Property taxes, penalties, interest, and other tax related income	\$ 40,439,765	-	12,500,653	-	-	52,940,418
Food sales	-	802,859	-	-	-	802,859
Investment income	126,202	338	9,486	60,630	157	196,813
Extracurricular activities	447,352	-	-	-	-	447,352
Tuition and fees	5,102	-	-	-	-	5,102
SSA revenue from member districts	47,438	-	-	-	936,067	983,505
Other	291,744	-	-	-	591,064	882,808
	<u>\$ 41,357,603</u>	<u>803,197</u>	<u>12,510,139</u>	<u>60,630</u>	<u>1,527,288</u>	<u>56,258,857</u>

N. Economic Dependency

During the year ended August 31, 2012, the District received 46 percent of its revenues from the State of Texas and 18 percent from federal sources. Federal source revenues are down approximately four percent from 2010-11. Although the District received additional funding in the amount of \$710,284 through the American Recovery and Rehabilitation Act (ARRA) and \$2,650,210 through the Education Jobs Fund, the total stimulus funding was significantly lower than the \$8,786,633 received in ARRA funding in the 2010-11 fiscal year.

Waco Independent School District

Notes to the Financial Statements For the Year Ended August 31, 2012

O. 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, 2011, 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, 2012, the District was party to construction contracts totaling approximately \$6.9 million of which \$3.5 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.

P. Subsequent Events

On December 1, 2012, the District issued \$9,636,000 of taxable unlimited tax refunding bonds to refund a portion of the non-taxable unlimited tax refunding bonds, series 2004. The interest rate on the bonds range from 0.28 to 4.00 percent and the maturity date is February 15, 2020.

Q. Shared Services Arrangements

The District is the fiscal agent for the McLennan County Challenge Academy, a SSA which provides juvenile justice alternative education programs to member districts. All services are provided by the fiscal agent. In addition to State funding, member districts provide funds to the fiscal agent. According to guidance provided in the TEA's Resource Guide, the District has accounted for the fiscal agent's activities for this SSA in Special Revenue Fund No. 446. Expenditures of the SSA are summarized by member district on the following schedule.

	Student Days Attended	Fund 446 McLennan Co. Challenge Academy
Axtell I.S.D.	176	\$ 11,369
Bruceville-Eddy I.S.D.	142	9,172
China Spring I.S.D.	348	22,479
Connally I.S.D.	387	24,998
Crawford I.S.D.	2	129
Gholson I.S.D.	3	194
La Vega I.S.D.	501	32,362
Lorena I.S.D.	142	9,172
Mart I.S.D.	42	2,713
McGregor I.S.D.	337	21,768
Methodist Home	105	6,782
Midway I.S.D.	666	43,020
Moody I.S.D.	14	904
Robinson I.S.D.	234	15,115
Valley Mills I.S.D.	3	194
Waco I.S.D.	8,558	552,805
West I.S.D.	206	13,307
	<u>11,866</u>	<u>\$ 766,483</u>

Waco Independent School District

Notes to the Financial Statements For the Year Ended August 31, 2012

Q. Shared Services Arrangements (continued)

The District is also the fiscal agent for a Shared Services Arrangement ("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 No. 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	Number of Students	Fund 458 Day School for the Deaf
Axtell I.S.D.	1	\$ 9,881
Connally I.S.D.	2	19,762
Hill County	1	9,881
La Vega I.S.D.	2	19,762
Midway I.S.D.	4	39,525
Waco I.S.D.	15	148,220
Total Expenditures	25	\$ 247,031

R. Related Organizations

The Waco Independent School District 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*.

S. 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 compensations 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, 2012, the Fund anticipates 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 2011-12 plan year, the excess coverage insurance policy covers claims in excess of \$820,831. The Fund performs an evaluation of worker compensation claims submitted incidents occurring prior to August 31, 2012, and has projected open claims and incurred but not reported claims for all years will cost \$804,894.

Waco Independent School District

Notes to the Financial Statements For the Year Ended August 31, 2012

S. Risk Management (continued)

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

<u>Fiscal Year</u>	<u>Beginning of Year Accrual</u>	<u>Current Year Estimates</u>	<u>Claims Payment</u>	<u>End of Year Accrual</u>
2010	\$ 783,602	470,256	424,393	829,465
2011	829,465	252,988	242,403	840,050
2012	840,050	191,234	226,390	804,894

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 reduced its contribution towards employee health insurance coverage by ten percent effective for the 2011-12 plan year, from \$288.18 to \$259.36 per month.

T. Arbitrage

The Federal Tax Reform Act of 1986 enacted section 148(f) of the Internal Revenue Code, relating to arbitrage rebate requirements, which 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 the 2006 maintenance tax notes and, as of August 31, 2012 there was no arbitrage rebate liability on bonds issued.

Required Supplementary Information

Waco Independent School District
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
General Fund
For the Year Ended August 31, 2012

Data Control Codes		Budgeted Amounts			Variances With Final Budget
		Original	Final	Actual	
REVENUES					
5700	Local and intermediate sources	\$ 41,514,994	41,600,328	41,357,603	(242,725)
5800	State program revenues	64,297,913	64,297,913	65,324,199	1,026,286
5900	Federal program revenues	4,025,335	2,369,774	3,236,409	866,635
5020	Total revenues	109,838,242	108,268,015	109,918,211	1,650,196
EXPENDITURES					
Current:					
6011	Instruction	59,078,787	56,077,825	53,465,712	2,612,113
6012	Instructional resources and media services	1,068,363	1,182,767	1,003,309	179,458
6013	Curriculum and instructional staff development	2,592,599	3,002,752	2,604,647	398,105
6021	Instructional leadership	2,501,024	2,419,932	2,252,014	167,918
6023	School leadership	8,452,363	8,143,535	7,758,956	384,579
6031	Guidance, counseling, and evaluation services	3,025,324	3,187,912	3,096,130	91,782
6032	Social work services	744,599	723,360	607,224	116,136
6033	Health services	1,100,322	1,143,063	1,013,551	129,512
6034	Student transportation services	2,636,332	3,216,629	2,608,287	608,342
6036	Cocurricular/extracurricular activities	3,432,023	3,536,407	3,130,618	405,789
6041	General administration	3,510,063	3,766,578	3,407,581	358,997
6051	Plant maintenance and operations	15,193,744	16,459,481	14,566,960	1,892,521
6052	Security and monitoring services	1,794,020	1,804,505	1,506,607	297,898
6053	Data processing services	2,361,815	3,337,140	3,084,948	252,192
6061	Community services	658,387	615,739	548,122	67,617
6093	Payments to fiscal agent/member districts of shared services arrangements	200,000	200,000	142,865	57,135
6095	Payments to Juvenile Justice Alternative Education Program	542,732	542,732	491,733	50,999
6097	Payments to tax increment fund	2,268,678	2,335,302	2,259,935	75,367
6099	Other intergovernmental charges	610,210	610,210	583,310	26,900
Debt service:					
6071	Debt service - principal on long term debt	705,000	705,000	705,000	-
6072	Debt service - interest on long term debt	256,326	256,602	256,601	1
6073	Debt service - bond issuance cost and fees	10,000	9,724	4,500	5,224
Capital outlay:					
6081	Facilities acquisition and construction	-	7,844,338	1,051,330	6,793,008
6030	Total expenditures	112,742,711	121,121,533	106,149,940	14,971,593
1100	Excess (deficiency) of revenues over (under) expenditures	(2,904,469)	(12,853,518)	3,768,271	16,621,789
OTHER FINANCING SOURCES (USES)					
7912	Sale of real and personal property	-	-	1,400,703	1,400,703
8949	Transfer out	-	-	(376,598)	(376,598)
	Total other financing sources (uses)	-	-	1,024,105	1,024,105
SPECIAL ITEMS					
8912	Repayment of grant funds	-	(250,000)	(250,000)	-
1200	Net change in fund balances	(2,904,469)	(13,103,518)	4,542,376	17,645,894
0100	Fund balances, beginning	30,033,958	30,363,618	30,363,618	-
3000	Fund balances, ending	\$ 27,129,489	17,260,100	34,905,994	17,645,894

Waco Independent School District
Notes to the Schedule of Revenues, Expenditures, and Changes in Fund Balances –
Budget and Actual
General Fund
For the Year Ended August 31, 2012

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.

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.

Functional expenditures did not exceed appropriations for the year ended August 31, 2012.

Supplemental Information

**Waco Independent School District
Schedule of Delinquent Taxes Receivable
For the Year Ended August 31, 2012**

Last Ten Years Ended August 31,	1	2	3
	Tax Rates		Assessed
	Maintenance & Operation	Debt Service	Appraised Value For School Tax Purposes
2003 and prior years	Various	Various	Various
2004	1.40570	0.11850	2,582,658,519
2005	1.41983	0.11850	2,789,240,192
2006	1.44559	0.11850	3,081,814,435
2007	1.32181	0.12200	3,198,779,674
2008	1.04005	0.12200	3,370,354,309
2009	1.04005	0.31910	3,520,746,064
2010	1.04005	0.32630	3,725,943,682
2011	1.04000	0.32475	3,833,148,214
2012 (school year under audit)	1.04000	0.32100	3,939,084,113
100 Totals			
9000 Taxes paid into Tax Increment Financing Zone under Chapter 311, Tax Code (included in above totals)			<u>\$ 191,158,077</u>

10	20	31	32	40	50
Balance September 1, 2011	Current Year's Total Levy	Total Collections		Entire Year's Adjustments	Balance August 31, 2012
		Maintenance & Operations	Debt Service		
501,960	-	10,112	1,319	(67,253)	423,276
122,740	-	3,185	269	(2,503)	116,783
136,853	-	4,490	375	(1,592)	130,396
174,550	-	(29,592)	(2,426)	(41,601)	164,967
211,329	-	(19,195)	(1,772)	(38,623)	193,673
211,148	-	19,284	2,262	(3,197)	186,405
320,841	-	18,354	5,631	(34,994)	261,862
578,014	-	103,188	32,374	(33,009)	409,443
1,373,529	-	429,606	134,149	(94,654)	715,120
-	53,610,856	39,475,812	12,184,286	(696,051)	1,254,707
3,630,963	53,610,856	40,015,244	12,356,467	(1,013,477)	3,856,632
398,461	2,601,659	1,847,087	576,832	(139,514)	436,687
		504			

Waco Independent School District
Schedule of Expenditures for Computations of Indirect Costs -
General and Special Revenue Funds
For the Year Ended August 31, 2012

Function 41 - General Administration and Related Function 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	\$ 5,143	-	250,834	2,017,659	-	-	2,273,636
6149	Leave for separating employees in fnc 41, 53	-	-	-	-	-	-	-
6149	Leave for separating employees not in fnc 41, 53	-	-	-	-	-	-	-
6211	Legal services	12,586	-	57,734	-	84,121	-	154,441
6212	Audit services	-	-	-	40,150	-	-	40,150
6213	Tax appraisal and collection	-	717,461	-	-	-	-	717,461
6219	Other professional services	-	-	-	-	-	-	-
6230	Education Service Centers	490	-	12,533	8,820	-	-	21,843
6240	Contracted maintenance and repairs	-	-	-	-	46,475	-	46,475
6250	Utilities	-	-	-	-	1,338	-	1,338
6260	Rentals	-	-	5,797	33,643	-	-	39,440
6290	Miscellaneous contracted services	2,812	-	5,564	266,640	-	-	275,016
6320	Textbooks and reading materials	-	-	990	1,168	-	-	2,158
63XX	Other supplies and materials	5,735	-	16,279	132,211	-	-	154,225
6410	Travel and stipends	5,825	-	3,412	16,577	-	-	25,814
6420	Insurance and bonding costs	-	-	-	89,692	-	-	89,692
6430	Election costs	37,673	-	-	-	-	-	37,673
6490	Miscellaneous operating costs	16,545	-	24,649	104,843	-	-	146,037
6600	Capital outlay	-	-	-	-	-	10,708	10,708
6000	Total	<u>\$ 86,809</u>	<u>717,461</u>	<u>377,792</u>	<u>2,711,403</u>	<u>131,934</u>	<u>10,708</u>	<u>4,036,107</u>
Total expenditures for General and Special Revenue Funds								(9) \$ 136,904,769
Less: deductions of unallowable costs:								
FISCAL YEAR								
Total capital outlay (6600 costs)						(10)	1,426,485	
Total debt and lease (6500 costs)						(11)	966,101	
Plant maintenance (function 51, 6100-6400)						(12)	14,775,936	
Food (function 35, 6341 and 6499)						(13)	4,120,610	
Stipends (6413)						(14)	9,975	
Column 4 (above) - total indirect cost							<u>2,711,403</u>	
Subtotal								<u>24,010,510</u>
Net allowed direct costs								<u>\$ 112,894,259</u>
CUMULATIVE								
Total cost of buildings before depreciation							(15) \$	<u>278,108,250</u>
Historical cost of building over 50 years old							(16) \$	<u>69,043,316</u>
Amount of federal money in building cost							(17) \$	<u>-</u>
Total cost of furniture and equipment before depreciation							(18) \$	<u>29,339,244</u>
Historical cost of furniture and equipment over 16 years old							(19) \$	<u>2,825,621</u>
Amount of federal money in furniture and equipment							(20) \$	<u>1,491,334</u>

(8) NOTE A: \$30,309 in Function 53 expenditures are included in this report on administrative costs.
\$583,311 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 Balances - Budget and Actual
National School Breakfast and Lunch Fund
For the Year Ended August 31, 2012

Data Control Codes		Budgeted Amounts		Actual	Variances With Final Budget
		Original	Final		
REVENUES					
5700	Local and intermediate sources	\$ 800,530	800,530	803,197	2,667
5800	State program revenues	56,500	81,500	80,994	(506)
5900	Federal program revenues	8,222,615	9,469,490	8,720,648	(748,842)
5020	Total revenues	9,079,645	10,351,520	9,604,839	(746,681)
EXPENDITURES					
	Current:				
6035	Food services	8,723,645	9,995,520	8,935,203	1,060,317
6051	Plant maintenance and operations	356,000	356,000	220,250	135,750
6030	Total expenditures	9,079,645	10,351,520	9,155,453	1,196,067
1100	Excess of revenues over expenditures	-	-	449,386	449,386
OTHER FINANCING SOURCES (USES)					
7912	Sale of real and personal property	-	-	18,271	18,271
	Total other financing sources	-	-	18,271	18,271
1200	Net change in fund balances	-	-	467,657	467,657
0100	Fund balances, beginning	997,107	1,021,690	1,021,690	-
3000	Fund balances, ending	\$ 997,107	1,021,690	1,489,347	467,657

Waco Independent School District
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
Debt Service Fund
For the Year Ended August 31, 2012

Data Control Codes		Budgeted Amounts		Actual	Variances With Final Budget
		Original	Final		
REVENUES					
5700	Local and intermediate sources	\$ 12,472,375	12,472,375	12,510,139	37,764
5800	State program revenues	3,680,727	3,680,727	4,239,124	558,397
5020	Total revenues	16,153,102	16,153,102	16,749,263	596,161
EXPENDITURES					
Current:					
6097	Payments to tax increment fund	629,865	629,865	579,194	50,671
Debt service:					
6071	Debt service - principal on long-term debt	5,029,917	5,029,917	5,029,917	-
6072	Debt service - interest on long-term debt	10,478,320	10,478,320	10,374,574	103,746
6073	Debt service - bond issuance cost and fees	15,000	15,000	2,550	12,450
6030	Total expenditures	16,153,102	16,153,102	15,986,235	166,867
1100	Excess of revenues over expenditures	-	-	763,028	763,028
1200	Net change in fund balances	-	-	763,028	763,028
0100	Fund balances, beginning	3,090,538	2,356,500	2,356,500	-
3000	Fund balances, ending	\$ 3,090,538	2,356,500	3,119,528	763,028

Overall 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**

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

We have audited the financial statements of the governmental activities, the business-type 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, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 23, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Partners

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Compliance and Other Matters

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

We noted certain other matters that we reported to management of the District in a separate letter dated January 23, 2013.

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

The logo features the names 'Belt Harris Pechacek' in a large, elegant, cursive script. The letters are dark blue or black. Below the names, 'LLP' is written in a smaller, sans-serif font.

Belt Harris Pechacek, LLP
Certified Public Accountants
Houston, Texas
January 23, 2013



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

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

Compliance

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

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

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

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Internal Control Over Compliance

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

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

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

We noted certain other matters that we reported to management of the District in a separate letter dated January 23, 2013.

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

The logo for Belt Harris Pechacek, LLP features the firm's name in a stylized, cursive script. The letters 'B', 'H', and 'P' are significantly larger and more ornate than the other letters, which are in a smaller, simpler script. The text 'Belt Harris Pechacek, LLP' is written in a dark red or maroon color.

Belt Harris Pechacek, LLP
Certified Public Accountants
Houston, Texas
January 23, 2013

WACO INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended August 31, 2012

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of 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 unqualified opinion.
6. No audit findings relative to the major federal award programs for the District are reported in Part C of this schedule.
7. The programs included as major programs are:

<u>CFDA Numbers</u>	<u>Name of Federal Program</u>
84.010, 84.389	Title I, Part A Cluster
84.394	State Fiscal Stabilization Fund Cluster
84.027, 84.173, 84.391, 84.392	Special Education Cluster (IDEA)
10.553, 10.555	Child Nutrition Cluster
84.410	Education Jobs Fund
84.365	English Language Acquisition Grants
84.048	Career and Technical Education Grants

8. The threshold for distinguishing Type A and B programs was \$867,614.
9. The District did qualify as a low-risk auditee.

B. FINDINGS – BASIC FINANCIAL STATEMENT AUDIT

None Noted

C. FINDINGS – FEDERAL AUDIT AWARDS

None Noted

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

A. SUMMARY OF PRIOR YEAR AUDIT FINDINGS

No prior year findings.

Waco Independent School District
Schedule of Expenditures of Federal Awards
For the Year Ended August 31, 2012

1	2	3	4
Federal Grantor / Pass-Through Grantor / Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF DEFENSE			
<u>Direct Programs</u>			
Junior Reserve Officer Training Corp.	12.000		\$ 92,932
Impact Aid-Payments in Lieu of Taxes-Flood Control	12.112		2,028
Total Direct Programs			94,960
TOTAL DEPARTMENT OF DEFENSE			94,960
U.S. DEPARTMENT OF EDUCATION			
<u>Passed Through State Department of Education</u>			
ESEA, Title I, Part A - Improving Basic Programs *1	84.010A	11610101161914	135,362
ESEA, Title I, Part A - Improving Basic Programs *	84.010A	12610101161914	6,540,077
ESEA, Title I, Part A - Improving Basic Programs *1	84.010A	13610101161914	131,387
ESEA, Title I, Part A - School Improvement *1	84.010A	11610104161914002	63,977
ESEA, Title I, Part A - School Improvement *1	84.010A	11610104161914043	9,423
ESEA, Title I, Part A - School Improvement *1	84.010A	12610104161914002	217,092
ESEA, Title I, Part A - School Improvement *1	84.010A	12610110161914002	115,432
ESEA, Title I, Part A - School Improvement *1	84.010A	12610104161914043	60,819
ESEA, Title I, Part A - School Improvement *1	84.010A	12610110161914043	126,244
Total CFDA Number 84.010A			7,399,813
ESEA, Title I, A - ARRA-Improving Basic Programs*1	84.389A	10551001161914	80,298
ESEA, Title I, Part A - ARRA-School Improvement *1	84.389A	10551004161914002	8,262
Total CFDA Number 84.389A			88,560
Total Title I, Part A Cluster			7,488,373
IDEA - Part B, Formula *2	84.027A	116600011619146600	5,120
IDEA - Part B, Formula *2	84.027A	126600011619146600	3,028,771
IDEA - Part B, Formula *2	84.027A	136600011619146600	108,528
SSA - IDEA - Part B, Discretionary (Deaf) *2	84.027A	126600021619146673	17,509
SSA - IDEA - Part B, Formula Deaf *2	84.027A	126600011619146601	19,831
Total CFDA Number 84.027A			3,179,759
IDEA - Part B, Preschool *2	84.173A	126610011619146610	47,063
IDEA - Part B, Preschool *2	84.173A	136610011619146610	1,138
SSA - IDEA - Part B, Preschool Deaf *2	84.173A	126610011619146611	226
Total CFDA Number 84.173A			48,427
IDEA, Part B, Formula - ARRA *2	84.391A	10554001161914	278,533
IDEA, Part B, Preschool - ARRA *2	84.392A	10555001161914	15,527
Total Special Education Cluster (IDEA)			3,522,246
Career and Technical - Basic Grant	84.048A	12420006161914	204,399
Career and Technical - Basic Grant	84.048A	13420006161914	39,645
Total CFDA Number 84.048A			244,044
ESEA, Title X, Part C -Homeless Children	84.196A	MVP2-002	106,690
Title IV, Pt B-21st Cent. Community Learning Cent.	84.287C	116950127110024	828,131
Title IV, Pt B-21st Cent. Community Learning Cent.	84.287C	126950127110024	39,936
Total CFDA Number 84.287C			868,067

Waco Independent School District
Schedule of Expenditures of Federal Awards
For the Year Ended August 31, 2012

1 Federal Grantor / Pass-Through Grantor / Program or Cluster Title	2 Federal CFDA Number	3 Pass-Through Entity Identifying Number	4 Federal Expenditures
Title II D Enhancing Ed Through Technology - ARRA*3	84.386A	105530027110032	37,157
Summer School LEP	84.369A	69551102	15,368
Title III, Part A - English Language Acquisition	84.365A	12671001161914	291,006
ESEA, Title II, Part A, Teacher/Principal Training	84.367A	11694501161914	15,529
ESEA, Title II, Part A, Teacher/Principal Training	84.367A	12694501161914	992,493
ESEA, Title II, Part A, Teacher/Principal Training	84.367A	13694501161914	13,746
Total CFDA Number 84.367A			1,021,768
Title XIV, State Fiscal Stabilization Fund - ARRA	84.394A	10557001161914	290,507
Education Jobs Fund- ARRA	84.410A	11550101161914	2,650,210
Total Passed Through State Department of Education			16,535,436
TOTAL DEPARTMENT OF EDUCATION			16,535,436
U.S. DEPARTMENT OF LABOR			
<u>Passed Through State Department of Education</u>			
WIA Dislocated Workers-National Reserve Demo	17.278	1312ATP000	13,912
Total Passed Through State Department of Education			13,912
TOTAL DEPARTMENT OF LABOR			13,912
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
<u>Passed Through Texas Department of Human Services</u>			
Community Youth Development	93.556	23794861	6,234
Medicaid Administrative Claiming Program - MAC	93.778		56,227
Student Health Related Services (SHARS)	93.778		1,774,441
Total CFDA Number 93.778			1,830,668
Total Passed Through Texas Department of Human Services			1,836,902
TOTAL DEPARTMENT OF HEALTH AND HUMAN SERVICES			1,836,902
FEDERAL COMMUNICATIONS COMMISSION			
<u>Direct Programs</u>			
Universal E-Rate	32.000		1,111,782
Total Direct Programs			1,111,782
TOTAL FEDERAL COMMUNICATIONS COMMISSION			1,111,782
U.S. DEPARTMENT OF AGRICULTURE			
<u>Passed Through the State Department of Agriculture</u>			
National School Lunch Pgm - Non-Cash Assistance *4	10.550	161026A	514,888
School Breakfast Program *4	10.553	71400401	2,314,292
National School Lunch Program - Cash Assistance *4	10.555	71300401	5,752,477
Fresh Fruits and Vegetables Program *4	10.582	00789-161914	138,991
Summer Feeding Program - Cash Assistance *4	10.559	7561013	606,812
Total Child Nutrition Cluster			9,327,460
Total Passed Through the State Department of Agriculture			9,327,460
TOTAL DEPARTMENT OF AGRICULTURE			9,327,460
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 28,920,452

*Clustered Programs

Waco Independent School District
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended August 31, 2012

A. Basis of Accounting

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

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, 2012**

SF2	Were there any disclosures in the Annual Financial Report and / or other sources of information concerning default on bonded indebtedness obligations?	No
SF4	Did the district receive a clean audit? Was there an unqualified opinion in the Annual Financial Report?	Yes
SF5	Did the Annual Financial Report disclose any instances of material weaknesses in internal controls	No
SF9	Was there any disclosure in the Annual Financial Report of material noncompliance?	No
SF10	Total Accumulated accretion on capital appreciation bonds included in government-wide financial statements at fiscal year end.	\$812,605