Waco Independent School District

Annual Financial Reports

For the Year Ended August 31, 2011

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Waco Independent School District
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Introductory Section

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Certificate of Board

Waco Independent School District **McLennan County** **161-914**

We the undersigned, certify that the attached annual financial and compliance reports of the above named independent school district were reviewed and approved for the year ended August 31, 2011 at a meeting of the Board of Trustees of such independent school district on the 26th day of January 2012.

Board Secretary

Board President

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

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Financial Statements

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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, 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, 2011, 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 generally accepted auditing standards 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, each major fund, and the aggregate remaining fund information of the District as of August 31, 2011, and the respective changes in financial position and cash flows, where applicable, 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 12, 2012 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.

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Governmental Audit Quality Center
AICPA

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

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 statements and schedules are presented for purposes of additional analysis and are not a required part 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 fund statements and schedules 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 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. The introductory section and schedule labeled unaudited have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

BELT HARRIS PECHACEK, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas
January 12, 2012

Management's Discussion and Analysis

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, 2011. 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.

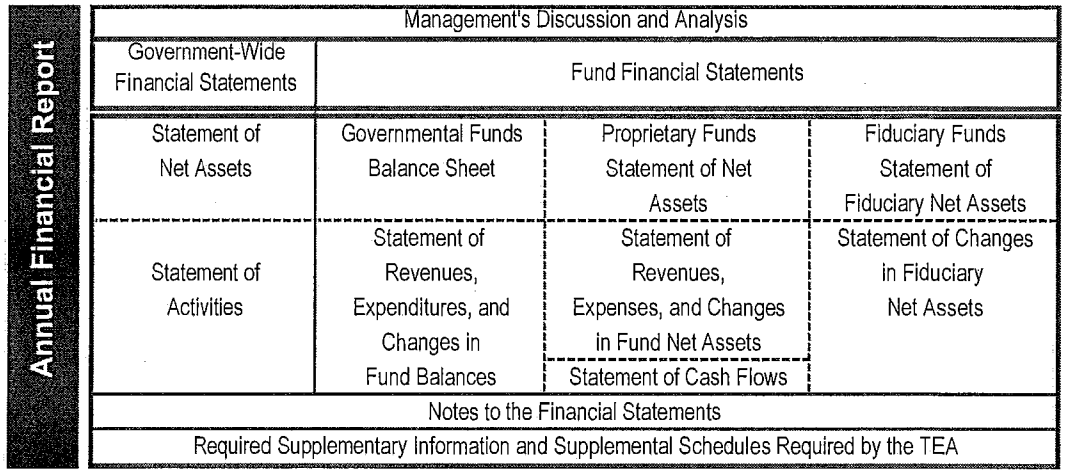
FINANCIAL HIGHLIGHTS

The following highlight changes in the District's financial position at August 31, 2011:

- On a government-wide basis, total assets exceeded its liabilities by $59,809,141. This amount represents the District's net assets of which $25,914,119 is invested in capital assets net of related debt and $1,399,335 is restricted for debt service. The remaining $32,495,687 is unrestricted and may be used to meet ongoing obligations.
- Total net assets for governmental activities increased by $3,427,791 over the prior year however, unrestricted net assets increased only $1,509,317.
- For business type activities, liabilities exceeded assets by $269,611. This deficit in net assets increased $186,413 from the prior year.
- As of August 31, 2011 the governmental funds reported combined ending fund balances of $61,892,020, a decrease of $50,064,585 compared with the prior year. Of the combined fund balances, $27,447,057 or 55.0% 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 $30,363,618 at August 31, 2011, of which $27,424,965 was unassigned. The unassigned amount represents 24.9% of its annual operating expenditures. Although, the total fund balance increased by $1,132,091 over the prior year, the unassigned fund balance increased by only $352,396, reflecting increases in funds committed for special projects.
- The ending fund balance for the National School Breakfast and Lunch Programs was $1,021,690, an increase of $132,999 over the prior year. This amount includes an increase of $57,000 in nonspendable inventories.
- The District's total debt decreased by $6,171,483. The fund balance reserved for debt service decreased by $498,867 to $2,356,500 at August 31, 2011.

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.



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

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

Government-wide Financial Statements

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

The statement of net 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 childcare center are accounted for in an enterprise fund, shown as a business-type activity in the government-wide statements. Fiduciary funds are not included in the government-wide statements.

Fund Financial Statements

The fund financial statements report operations in more detail than the government-wide statements by providing information about the District's most significant funds. A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is based upon compliance with finance-related legal requirements underlying each fund. Management may also establish funds to assist in controlling and managing money for specific purposes. The focus of the governmental fund financial statements is on major funds, rather than fund types.

Funds can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

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

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

The District maintains numerous governmental funds, as needed, to insure proper accountability. Information is presented separately in the governmental funds financial statements for the general fund, the National School Breakfast and Lunch fund, the debt service fund and the combined capital projects funds. The general fund, by definition is always considered a major fund. Both the capital projects funds for the 2008 and 2009 issues meet the criteria to be considered as a major fund so, as allowed under GASB 34, all capital projects funds have been presented in a combined format. The National School Breakfast and Lunch fund and the debt service fund are presented as major because management has judged these funds to be of particular interest to financial statement users. Data from the remaining governmental funds are combined into a single column, entitled "Other Governmental Funds".

- **Proprietary Funds --** Proprietary funds are used to account for operations that are financed similar to those found in the private-sector. These funds provide both long and short-term financial information. There are two types of proprietary funds:
  - *Enterprise funds* are used to account for business-type activities. The District utilizes an enterprise fund to report activities for the childcare center which began operation in the 2010-11 school year.
  - *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 worker's 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.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The District's overall financial position and operations for the fiscal years ended August 31, 2011 and 2010 are summarized as follows, based on the information included in the government-wide financial statements.

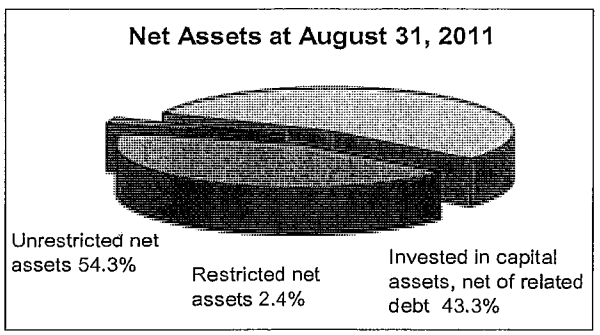
Schedule of Net Assets

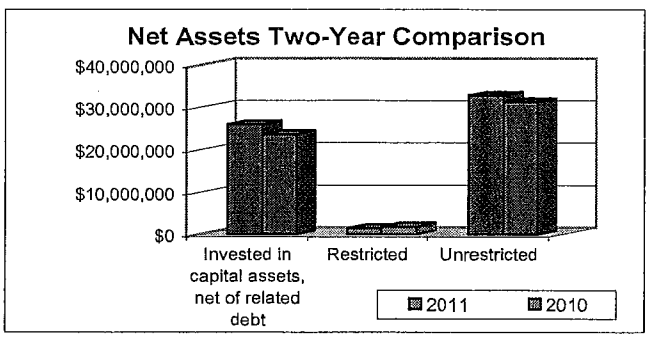
	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Current and other assets	$ 81,778,633	132,456,137	(266,275)	(58,015)	81,512,358	132,398,122
Capital assets	204,462,352	157,495,498	-	-	204,462,352	157,495,498
Total assets	286,240,985	289,951,635	(266,275)	(58,015)	285,974,710	289,893,620
Current liabilities	24,088,143	24,955,259	3,336	25,183	24,091,479	24,980,442
Long-term liabilities	202,074,090	208,345,415	-	-	202,074,090	208,345,415
Total liabilities	226,162,233	233,300,674	3,336	25,183	226,165,569	233,325,857
Net assets:						
Invested in capital assets, net of related debt	25,914,119	23,565,114	-	-	25,914,119	23,565,114
Restricted	1,399,335	1,829,866	-	-	1,399,335	1,829,866
Unrestricted	32,765,298	31,255,981	(269,611)	(83,198)	32,495,687	31,172,783
Total net assets	$ 60,078,752	56,650,961	(269,611)	(83,198)	59,809,141	56,567,763

The total assets exceed total liabilities by $59,809,141 at August 31, 2011, increasing $3,241,378 over the prior year. At the end of the fiscal year, 54.3% 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 43.3% 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, increased $2,349,005. Capital assets increased $44,493,567, net of related depreciation which decreased $2,473,287 due to the sale of the old University Middle School, while related debt decreased $6,171,483. Total debt is offset by unexpended debt proceeds in the amount of $28,150,212.

The remaining 2.4% 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 for debt service.





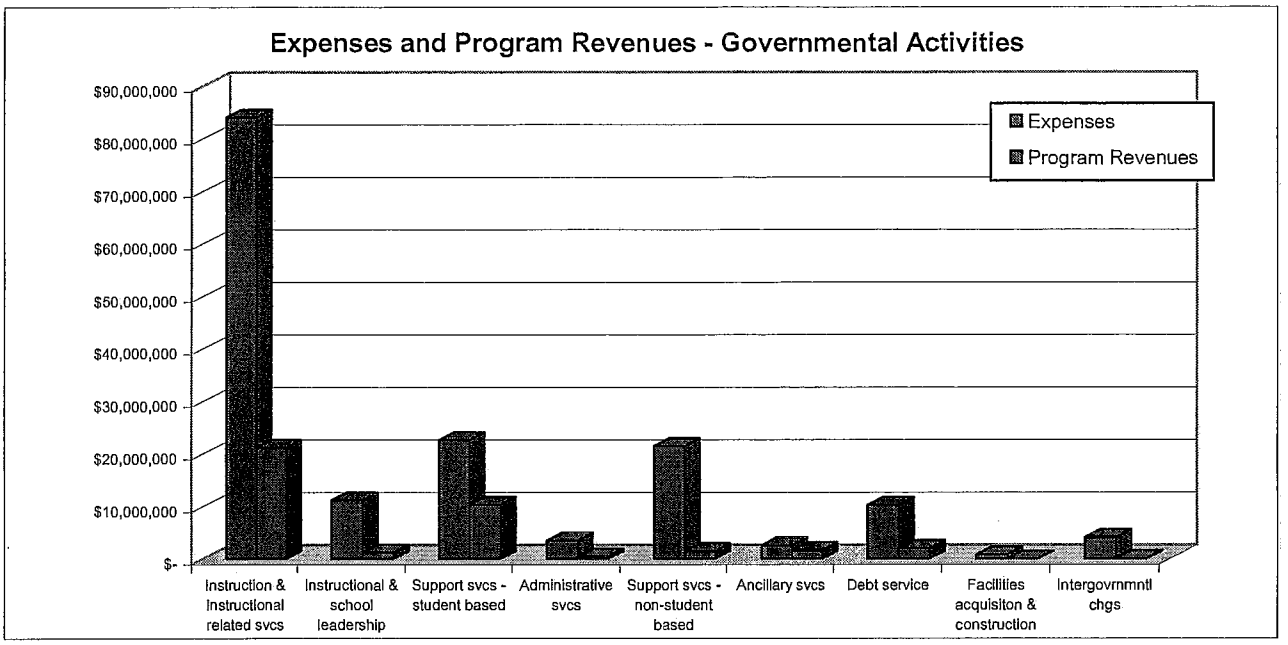
Changes in Net Assets

The following table provides a summary comparing the District's operations for the years ended August 31, 2011 and 2010. For the year ended August 31, 2011 governmental activities increased net assets by $3,233,057. The net assets for business-type activities decreased by $186,413.

Changes in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Revenues:						
Program Revenues:						
Charges for services	$ 3,470,369	3,709,853	44,061	470	3,514,430	3,710,323
Operating grants and contributions	45,889,669	47,316,179	-	2,000	45,889,669	47,318,179
General Revenues:						
Property taxes	51,665,181	52,048,199	-	-	51,665,181	52,048,199
State aid -- formula grants	60,642,343	63,257,681	-	-	60,642,343	63,257,681
Investment earnings	787,439	1,671,840	-	-	787,439	1,671,840
Miscellaneous revenue	731,397	1,889,532	-	-	731,397	1,889,532
Total revenues	163,186,398	169,893,284	44,061	2,470	163,230,459	169,895,754
Expenses:						
Instruction	76,640,320	78,925,567	-	-	76,640,320	78,925,567
Instructional resources and media services	1,255,640	1,249,717	-	-	1,255,640	1,249,717
Curriculum development and instructional staff development	6,151,716	5,603,503	-	-	6,151,716	5,603,503
Instructional leadership	2,378,751	2,509,080	-	-	2,378,751	2,509,080
School leadership	8,751,249	8,749,357	-	-	8,751,249	8,749,357
Guidance, counseling and evaluation services	4,362,036	4,345,391	-	-	4,362,036	4,345,391
Social work services	816,502	895,460	-	-	816,502	895,460
Health services	1,174,658	1,189,010	-	-	1,174,658	1,189,010
Student transportation	2,998,759	2,884,105	-	-	2,998,759	2,884,105
Food services	9,386,899	8,809,409	-	-	9,386,899	8,809,409
Extracurricular activities	3,822,090	3,898,871	-	-	3,822,090	3,898,871
General administration	3,446,312	3,167,326	-	-	3,446,312	3,167,326
Plant maintenance and operations	15,284,945	14,991,829	-	-	15,284,945	14,991,829
Security and monitoring services	1,876,331	1,887,790	-	-	1,876,331	1,887,790
Data processing services	4,249,789	3,077,680	-	-	4,249,789	3,077,680
Community services	2,530,039	3,008,672	230,474	85,669	2,760,513	3,094,341
Debt service - interest on long-term debt	10,167,623	10,458,490	-	-	10,167,623	10,458,490
Debt service - bond issuance costs and fees	9,100	6,667	-	-	9,100	6,667
Facilities Acquisition and construction	780,280	274,824	-	-	780,280	274,824
Payments to fiscal agents/member districts of shared services arrangements	198,462	272,123	-	-	198,462	272,123
Payments to Juvenile Justice Alternative Education program	640,408	677,568	-	-	640,408	677,568
Payments to tax increment fund	2,594,257	2,532,598	-	-	2,594,257	2,532,598
Other intergovernmental charges	606,403	640,288	-	-	606,403	640,288
Total expenses	160,122,569	160,055,325	230,474	85,669	160,353,043	160,140,994
Increase or (decrease) in net assets before transfers, special and extraordinary items	3,063,829	9,837,959	(186,413)	(83,199)	2,877,416	9,754,760
Special items -- gain on sale of equipment	169,228	59,056	-	-	169,228	59,056
Increase or (decrease) in net assets	3,233,057	9,897,015	(186,413)	(83,199)	3,046,644	9,813,816
Net assets, September 1	56,650,961	46,848,946	(83,199)	-	56,567,762	46,848,946
Prior Period Admustment	194,734	(95,000)	-	-	194,734	(95,000)
Net assets, August 31	$ 60,078,752	56,650,961	(269,612)	(83,199)	59,809,140	56,567,762

The cost of all governmental activities totaled $160,122,569 increasing $67,244 over the prior year. Program revenues of $3,470,369, in the form of charges for services, and $45,889,669, 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 $60,642,343, 37.2%, of the $163,186,398 total revenue. Funding from State formula grants decreased $2,615,338 from last year but last year's revenue included a one-time adjustment of $823,191 for fiscal years 2004-05 through 2008-09. This adjustment was due to the treatment of tax collections and payments into Tax Increment Reinvestment Zones in State Foundation School Program funding formulas. Three major factors impact State funding: property valuations and collections, representing local effort, and average daily attendance. While property values increased 1% for the 2010 tax year, the average daily attendance for the 2010-11 school year decreased by 77.4 students from 2009-10.

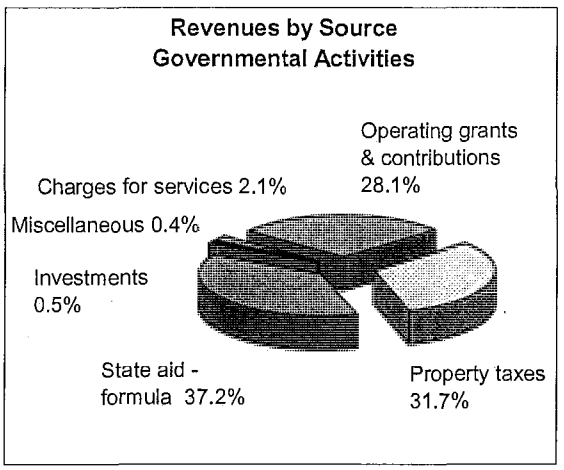
Local property tax revenue contributed an additional $51,665,181 or 31.7% of the total revenue. Property taxes for general purposes decreased $248,454 due to slightly decreased collections. Property taxes levied for debt service increased $134,564 due to the same decrease in collections as well as a slight decrease in the tax rate from $0.3263 per $100 of valuation to $0.32475 per $100 of valuation. This decrease was consistent with a decrease in debt service for issued bonds. The rate for maintenance and operations decreased from $1.04005 to $1.04000 per $100 of valuation. This change resulted from a clarification in law in regards to the allowable compressed tax rate.

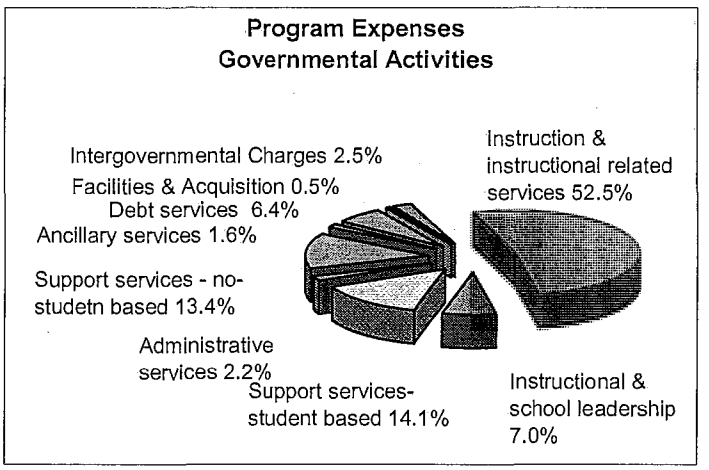
Although decreasing by $676,147, the continuation of funding under the American Recovery and Reinvestment Act of 2009 (ARRA), kept federal funding at historically higher levels. ARRA funding totaled $8,585,213 for 2010-11, including $4,419,632 in ARRA Stabilization funds which was utilized by the State of Texas to fully fund obligations under the Foundation School Program.

Expenses for governmental activities increased by only $67,244 over the prior year. While funding and related expenditures for E-rate projects increased $1,076,012, other federally funded expenditures decreased by $1,752,159, interest on long-term debt decreased $290,867. These decreases were offset by other increases in areas such as plant maintenance and operations, $293,116, major repairs of facilities, $505,456, and general administration, $278,986. The major repairs to facilities were funded through the sale of the old University Middle School property.

In August, 2010, the Board of Trustees approved a compensation package with an estimated cost of $1.5 million, providing an average increase of 1.6% to administrative staff and 2.1% to all other employee groups. The compensation package also included a 15% increase in the District's contribution towards the employee's health insurance premium, based on early rate increase projections.

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 childcare center with the hiring of a program coordinator. The center is designed to serve approximately 250 children and is expected to be self-funding within three to five years. Because renovations to the purchased property were more extensive than originally anticipated, the program started with two children at the new J.H. Hines facility in August 2010 and did not move to the remodeled location until January 2011.

The childcare center is accounted for as a business-type activity in an enterprise fund. At August 31, 2011 the center had generated $44,061 in user charges for the year but had incurred $230,474 in expenses. This loss of $186,413 for the year compounded the prior year's deficit of $83,198 bringing the deficit to $269,611.

Since August 2011 the center has operated with an enrollment fluctuating between 22 and 28 children. At the end of November, the center is showing an additional loss of $45,826. Because of the continued losses due to lack of participation, the District's Board of Trustees and administration will discuss the future of the center in early spring. If the center is closed, all furniture, equipment and supplies will either be repurposed for instructional use or declared surplus and sold to offset the deficit. The remaining deficit must be covered through unassigned fund balances in the general fund.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Governmental Funds

At August 31, 2011, the Waco Independent School District's governmental funds reported combined ending fund balances of $61,892,020, a decrease of $49,869,855 from the prior year. The decrease is due to the expending of bond funds for capital projects. Restricted fund balances for capital projects decreased by $50,830,808.

The general fund supports most of the District's educational program and support operations. As of August 31, 2011, the fund balance for the general fund totaled $30,363,618, increasing $1,326,825 over the year ended August 31, 2010. The unassigned portion of the fund balance increased by only $352,396 to $27,424,965 while nonspendable funds decreased by $39,661 and committed and assigned funds increased by $1,014,090 primarily due to the sale of the old University Middle School property and the subsequent commitment of those funds by the Board to major facilities repairs and improvements.

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 24.9% of total fund expenditures, while the total fund balance represents 27.6%.

The fund balance of the National School Breakfast and Lunch Program continued to improve. Revenues exceeded expenditures by $132,999. The fund balance at year's end totaled $1,021,690 with $257,488 invested in nonspendable inventories on hand.

Reserves in the debt service fund decreased by $498,867. The decrease was due to an adjustment in the instructional facilities allotment for the refunded 2001 bonds. The Texas Education Agency 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 ending debt service reserve represents 14.7% of the annual debt service.

Proprietary Funds

The District established an enterprise fund during the 2009-10 fiscal year to account for activities associated with its new employee childcare center. The ending net assets reflect a deficit of $269,611. The center is expected to be self-supporting in three to five years. The center's operations are more fully discussed under the section "Change in Net Assets" above.

A internal service fund is utilized to record costs associated with its partially self-funded worker's 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 $545,628. Fees paid to the third party administrator totaled $90,826. Unemployment claims paid totaled $213,995. Worker's compensation claims paid totaled $218,700 and incurred but unpaid claims totaled $23,803. Total claims expense increased by $42,589 from $424,393 in 2009-10. Projected unpaid incurred claims of $840,050 were accrued at August 31, 2011. Ending net assets for the fund totaled $292,791 or 34.9% of these accrued claims.

GENERAL FUND BUDGETARY HIGHLIGHTS

On August 25, 2010, the Board of Trustees for the Waco Independent School District adopted a balanced budget. Original appropriations in the general fund totaled $118,921,289. Revenues were estimated to cover appropriations. The beginning fund balance, at budget adoption was projected at $26,450,760. The actual beginning fund balance totaled $29,231,527. The difference between projected and actual was due primarily to the carry forward of $590,326 in committed funds for bus purchases, $155,902 in committed funds for facilities repairs and improvements, $1,548,509 in uncompleted E-rate projects and $165,752 in outstanding purchase orders.

In September 2010, federal revenue estimates were amended downward. First, $4,229,738 in revenue and related appropriations were amended into a special revenue fund to separately account for funds allocated under the American Recovery and Reinvestment Act of 2009 - Stabilization. As these funds were utilized to cover State funding deficits, districts had been instructed to include the revenues and expenditures in the original general fund budget, amending to the special revenue fund after adoption. This is the same procedure used in adopting the 2009-10 budget.

Additionally, an amendment was processed to further reduce federal revenue estimates by $5,800,000, removing the anticipated funding under the Education Jobs Bill. The District had received late notification of the award and the Board of Trustees had used the funds to help fund a compensation package for employees including a 2.1% average increase for teachers and other non-administrative personnel and a projected 15% increase in the District's contribution to the employee's group health insurance premium. The funds were used to cover campus budgets so that programs, previously eliminated, could be reinstated. In early September, it became apparent that the Education Jobs Bill funding would not be available during 2010-11 and the budget was amended reducing Federal revenue estimates by $5.8 million. This decrease was partially offset by an increase of $758,519 in reimbursements under the Student Health and Related Services (SHARS) program. Appropriations for the previously approved programs were cut, reducing budgeted appropriations by $2,821,275. The difference of $2,220,206 represented amounts budgeted for the salary and benefit increases and would have to come from the unassigned fund balance, if fully expended.

Subsequent to this amendment, bids for employee health insurance were opened and the 15% increase in the employer contribution was not required. This amount was not amended from the budget but contributed approximately $960,000 to the overall underexpenditure of the general fund.

Federal revenues were also amended upward for $1.8 million in E-rate funds awarded during the fiscal year.

At year end, realized revenue fell short of budgeted estimates by $1,764,647. This was due entirely to decreases in State revenue from adjustments to Foundation School Program calculations. The adjustments resulted from a lower than expected average daily attendance, a greater amount of funding transferred to the ARRA Stabilization funding source, routine prior year adjustments for final tax collections and attendance audits, as well as a reduction in the accruals due to the reduction of State funding for 2011-12. Higher than expected property values negatively impacted State revenue but this loss was offset in local revenue by approximately $585,000 in increased property tax collections.

Adopted general fund appropriations increased $5,409,333 over those of the prior year due to the anticipated receipt of the Education Jobs Bill funding. Final expenditure budgets decreased from the original by $2,838,083. While the appropriations budget was reduced for the $4,229,738 in ARRA Stabilization funds and the $2,821,275 in Education Jobs Bill funds, budgeted expenditures were increased by an additional $4,212,926. This increase included the roll forward of previously committed or assigned funds in the amount of $738,228 and E-rate projects of $1,826,071. Additionally, the expenditure budget was increased by $45,000 and $1,600,000, respectively, to utilize funds received for the sales of a school bus and the old University Middle School property. These funds have been committed by the Board to the future purchase of buses and major renovations or repairs of District facilities.

Final appropriations were under expended by $5,981,287. This amount included the $2.7 million of unspent funds committed or assigned for facilities renovations and equipment replacement, $960,000 saved in health insurance contributions, as well as $450,073 due to an overestimate of payments to the tax increment fund.

The remaining $1.3 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 decreased the fund balance by $552,546. Other financing sources, i.e., the sale of real and personal property and insurance recoveries, resulted in a net increase to fund balance of $1,232,091. However, the $2.7 million in unspent committed or assigned funds will be reappropriated in the 2011-12 fiscal year for expenditure.

CAPITAL ASSET AND DEBT ADMINISTRATION

The District's investment in capital assets for its governmental activities as of August 31, 2011, totaled $204,462,352, net of accumulated depreciation of $98,450,504. Capital assets, net of accumulated depreciation increased $46,966,854 from the August 31, 2010 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, 2011	August 31, 2010
Land	$ 10,466,437	$ 10,153,246
Buildings and improvements	169,959,399	66,167,354
Furniture and equipment	15,923,823	10,501,335
Construction in progress	8,112,693	70,673,563
Total capital assets, net of accumulated depreciation	$ 204,462,352	$ 157,495,498

Major capital asset acquisitions for the current fiscal year included:

- Acquisition of land totaling $360,493;
- Construction-in-progress of $8,112,693 for bond projects authorized in the May 2008 bond election, primarily for the new Bell's Hill Elementary school;
- $107,985,352 in buildings and improvements, including the completed construction of the new University High and Dean Highland Elementary Schools less $8,312,951 deleted with the sale of the old University Middle School; and
- $7,068,845 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. Additional information may be found in Note III-F, Capital Asset Activity, in the notes to the financial statements.

Debt Administration

At August 31, 2011, the District had debt obligations totaling $207,809,007. $6,501,100 in bonds was retired during the 2010-11 fiscal year through scheduled debt service payments. Bond payments due within one year total $5,734,917.

Debt Summary

	Governmental Activities	
	August 31, 2011	August 31, 2010
General obligation bonds	$ 204,014,918	$ 209,649,993
Unamortized bond issuance premium	4,623,646	5,399,045
Unamortized bond refunding loss	(1,652,522)	(1,823,211)
Accumulated accretion	822,965	754,663
Total long-term debt	$ 207,809,007	$ 213,980,490

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.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

As the District began development of the 2011-12 budget, the Board of Trustees and administration were faced with uncertain revenue prospects. Funding cuts were inevitable. Federal stimulus programs had served as a band-aid to State revenues during the 2008-10 biennium. Without those dollars, State funding for education was projected to decrease by over $10 billion. Texas legislators considered numerous proposals to address the funding shortfall. Ultimately, improved revenue estimates, substantial cuts to other programs, delayed payments and some utilization of the "rainy day fund" resulted in a shortfall of about $4 billion. Final resolution of the funding issues did not occur until late June.

The $4 billion shortfall in the Foundation School Program resulted in a loss in funding of approximately $5.4 million. This amount does include the discontinuation of the federal stabilization funding. Additionally, cuts to other State programs negatively impacted the revenues by another $1.4 million. These program cuts included the loss of $910,800 for the prekindergarten expansion grant, $387,845 for the technology allotment, and $88,854 for optional extended year programs. Total revenue reductions, not offset by related decreases in appropriations, were estimated at $6.8 million.

This loss in State funding was partially offset by the availability of some the Education Jobs Bill funding originally expected for the 2010-11 school year. Unfortunately, the District did not receive the full $5.8 million originally allocated due to changes in allocation formulas. Preliminary formulas allocated the funds based on a district's free and reduced lunch counts. Final allocations were based 60% on enrollment and only 40% on free and reduced lunch counts cutting our allocation from $5.8 to $2.6 million.

Certified property values rose 2.3% over last 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 $552,206 in tax collections.

As a consequence of the revenue cuts, no general salary increase was approved for 2011-12 and the teacher salary schedule was frozen at 2010-11 levels. The District reduced its contribution to the employee's health insurance premium by 10% passing any new rate increase to the employee and cut the alternative flexible spending account benefit by 50%. Selected stipends were reduced and the dedicated service pay and cell phone allowances were eliminated. These reductions saved approximately $1.1 million.

Since payroll costs comprise about 77 percent of the general fund budget, new staffing guidelines for campus personnel were implemented resulting in the elimination of 38 positions Central administration was restructured and an additional 10 positions were eliminated. These personnel reductions saved another $1.8 million. Unavoidable increases in budgets for such costs as utilities were offset by cuts in non-payroll costs.

The adopted budget for 2011-12 reflects an operational shortfall of $2.9 million.

One of the elements of the funding legislation is the phased elimination of target revenue. For the 2012-13 school year, this phased change in funding formulas is expected to generate an additional $2.1 million in revenue through the Foundation School Program. However, this increase will be negated by the loss of the $2.6 million in federal funding through the Education Jobs Bill. At this time, the District will need to reduce appropriations by another $3.4 million in order to achieve a balanced budget.

The administration continues to explore opportunities for reductions. Discussions between the administration, Board of Trustees, and community are taking place to devise a common plan for school consolidation. Proposals include the closure of between three and seven campuses for the 2012-13 school year. It is projected that these closures will save between $1.3 and $2.7 million.

The District's tax rate for interest and sinking was decreased from $0.32475 to $0.320998 per $100 of valuation. This decrease is in line with information provided taxpayers for the 2008 bond election. Although debt service requirements remain fairly stable through 2013 before beginning to decrease, a change in the methodology utilized by the Texas Education Agency in allocating instructional facilities allotments for refunded bonds has negatively impacted State funding for debt service. This reduction will need to be offset through increased tax collections.

While economic recovery is slow across the country, in 2011 the Texas economy lagged the country in economic gains. Although the unemployment rate in Texas is still below the U.S. rate, it improved over last year by only 0.2 percent. For the same period, the unemployment rate in the U.S. improved by 0.9 percent. Again, while Texas has seen a 7.7 percent increase in sales tax collections, approaching 2008 collections, national sales tax collections increased 12.2 percent. Additionally, the consumer price index increased at a faster rate. On a positive note, single-family home sales and non-residential building construction increased while mortgage foreclosures decreased.

The 7.1 percent unemployment rate for the Waco Metropolitan Statistical Area (MSA) continues to better both State and national rates. Unemployment in the area has decreased by 0.5 percent from 2010. 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. Property values in the Waco Independent School District increased by 2.2 percent for the 2011 tax year as 2010 tax collections held steady.

State revenue estimates for 2011-12 were computed on a projected average daily attendance of 13,795, an increase of 17 over 2010-11. Based on counts from the second six weeks, it appears that the projection is on target. Only a slight decrease is expected for the 2012-13 school year so revenues should not be significantly impacted by a loss in students.

Although these economic trends are promising, the population growth in Texas will continue to strain its resources and limit its ability to adequately fund education.

At its December meeting, 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. While sympathetic to public education, the courts have always granted the State discretion in implementing the courts' rulings. Recent "fixes" have only aggravated the problem. There is a need for a clear constitutional priority for public education funding but constitutional challenges are just an element in a larger debate.

Revenue losses will continue to pose significant challenges for the Waco Independent School District. School closures and larger class sizes could negatively impact existing programs. All currently budgeted expenditures must be reevaluated 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 I.S.D., 501 Franklin Avenue, Waco, Texas 76701.

Basic Financial Statements

Waco Independent School District

Statement of Net Assets

August 31, 2011

Data Control Codes		1	2	3
		Primary Government		
		Governmental Activities	Business Type Activities	Governmental Activities
	ASSETS			
1110	Cash and cash equivalents	$ 70,178,797	-	70,178,797
1120	Current investments	-	-	-
1225	Property taxes receivable, net of allowance for uncollectibles of $2,145,824	1,485,139	-	1,485,139
1240	Due from other governments	7,924,205	-	7,924,205
1250	Accrued interest receivable	379,846	-	379,846
1260	Internal balances	318,468	(266,275)	52,193
1290	Other receivables	736,134	-	736,134
1310	Inventories	454,096	-	454,096
1410	Deferred expenses	14,351	-	14,351
1420	Capitalized bond and other debt issuance costs	287,597	-	287,597
	Capital assets, net of accumulated depreciation:			
1510	Land	10,466,437	-	10,466,437
1520	Buildings and improvements	169,959,399	-	169,959,399
1530	Furniture and equipment	15,923,823	-	15,923,823
1580	Construction in progress	8,112,693	-	8,112,693
	Total assets	286,240,985	(266,275)	285,974,710
	LIABILITIES			
2110	Accounts payable	13,419,695	2,781	13,422,476
2140	Accrued interest payable	448,973	-	448,973
2150	Payroll deductions and withholdings	604,871	-	604,871
2160	Accrued wages	1,666,853	555	1,667,408
2170	Due to fiduciary funds	17,361	-	17,361
2180	Due to other governments	5,955	-	5,955
2200	Accrued expenses	840,050	-	840,050
2300	Unearned revenue	1,349,468	-	1,349,468
	Noncurrent liabilities:			
2510	Due within one year	5,734,917	-	5,734,917
2510	Due after one year	202,074,090	-	202,074,090
	Total liabilities	226,162,233	3,336	226,165,569
	NET ASSETS			
3200	Invested in capital assets, net of related debt	25,914,119	-	25,914,119
	Restricted for:			
3800	Debt service	1,399,335	-	1,399,335
3900	Unrestricted (deficit)	32,765,298	(269,611)	32,495,687
	Total net assets	$ 60,078,752	(269,611)	59,809,141

See accompanying notes to financial statements

Waco Independent School District

Statement of Activities

For the Year Ended August 31, 2011

Data Control Codes		1 Expenses	Program Revenues 3 Charges for Services	Program Revenues 4 Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets 6 Primary Government Governmental Activities	7 Business Type Activities	8 Total
Primary Government:							
	Governmental Activities:						
11	Instruction	$ 76,640,320	1,120,182	20,996,339	(54,523,799)	-	(54,523,799)
12	Instructional resource and media services	1,255,640	-	154,390	(1,101,250)	-	(1,101,250)
13	Curriculum and instructional staff development	6,151,716	4,511	4,967,310	(1,179,895)	-	(1,179,895)
21	Instructional leadership	2,378,751	-	577,121	(1,801,630)	-	(1,801,630)
23	School leadership	8,751,249	153,336	668,663	(7,929,250)	-	(7,929,250)
31	Guidance, counseling and evaluation services	4,362,036	51,112	1,008,562	(3,302,362)	-	(3,302,362)
32	Social work services	816,502	6,767	142,974	(666,761)	-	(666,761)
33	Health services	1,174,658	-	103,865	(1,070,793)	-	(1,070,793)
34	Student transportation	2,998,759	-	-	(2,998,759)	-	(2,998,759)
35	Food services	9,386,899	767,451	8,556,996	(62,452)	-	(62,452)
36	Cocurricular/extracurricular activities	3,822,090	565,971	98,798	(3,157,321)	-	(3,157,321)
41	General administration	3,446,312	177,261	524,859	(2,744,192)	-	(2,744,192)
51	Plant maintenance and operations	15,284,945	132,545	1,026,050	(14,126,350)	-	(14,126,350)
52	Security and monitoring services	1,876,331	25,556	90,136	(1,760,639)	-	(1,760,639)
53	Data processing services	4,249,789	-	2,071,746	(2,178,043)	-	(2,178,043)
61	Community services	2,530,039	414,565	1,430,482	(684,992)	-	(684,992)
72	Interest on long-term debt	10,167,623	-	3,085,691	(7,081,932)	-	(7,081,932)
73	Bond issuance cost and fees	9,100	-	-	(9,100)	-	(9,100)
81	Facilities Acquisition and construction	780,280	-	381,838	(398,442)	-	(398,442)
93	Payments to fiscal agents/member districts of shared services arrangements	198,462	51,112	3,849	(143,501)	-	(143,501)
95	Payments related to Juvenile Justice Alternative Education Program	640,408	-	-	(640,408)	-	(640,408)
97	Payments to tax increment zones	2,594,257	-	-	(2,594,257)	-	(2,594,257)
99	Other intergovernmental charges	606,403	-	-	(606,403)	-	(606,403)
	(TG) Total governmental activities	160,122,569	3,470,369	45,889,669	(110,762,531)	-	(110,762,531)
	Business-type Activities:						
01	Early Childhood Development Center	230,474	44,061	-	-	(186,413)	(186,413)
		230,474	44,061	-	-	(186,413)	(186,413)
		$ 160,353,043	3,514,430	45,889,669	(110,762,531)	(186,413)	(110,948,944)

Data Control Codes				
	General revenues:			
	Taxes:			
MT	Property taxes, levied for general purposes	39,376,307	-	39,376,307
DT	Property taxes, levied for debt service	12,288,874	-	12,288,874
SF	State aid-formula grants	60,642,343	-	60,642,343
IE	Investment earnings	787,439	-	787,439
MI	Miscellaneous	731,397	-	731,397
SI	Gain on disposal of land, buildings and equipment	169,228	-	169,228
TG	Total general revenues	113,995,588	-	113,995,588
CN	Change in net assets	3,233,057	(186,413)	3,046,644
NB	Net assets, beginning	56,650,961	(83,198)	56,567,763
PA	Prior Period Adjustment	194,734	-	194,734
NE	Net assets, ending	$ 60,078,752	(269,611)	59,809,141

Waco Independent School District

Balance Sheet
Governmental Funds

August 31, 2011

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	$ 28,694,141	731,344	2,929,663	37,733,494	90,155	70,178,797
1120	Investments	-	-	-	-	-	-
1225	Property taxes receivable (net of allowances for uncollectibles)	1,140,257	-	344,882	-	-	1,485,139
1240	Due from other governments	3,732,725	343,270	-	-	3,848,210	7,924,205
1250	Accrued interest receivable	-	-	-	379,846	-	379,846
1260	Due from other funds	5,250,639	313,509	-	-	708,780	6,272,928
1290	Other receivables	327,213	20,027	-	-	388,894	736,134
1310	Inventories	196,608	257,488	-	-	-	454,096
1410	Prepaid items	14,351	-	-	-	-	14,351
	Total assets	$ 39,355,934	1,665,638	3,274,545	38,113,340	5,036,039	87,445,496
	LIABILITIES AND FUND BALANCES						
	Liabilities:						
2110	Accounts payable	$ 3,681,357	597,304	-	8,371,916	745,316	13,395,893
2150	Payroll deductions and withholdings payable	604,871	-	-	-	-	604,871
2160	Accrued wages payable	1,444,660	29,451	-	-	192,742	1,666,853
2170	Due to other funds	2,196,293	-	2,370	1,591,212	3,338,589	7,128,464
2180	Due to other governments	-	-	-	-	5,955	5,955
2300	Deferred revenues	1,065,135	17,193	915,675	-	753,437	2,751,440
	Total liabilities	8,992,316	643,948	918,045	9,963,128	5,036,039	25,553,476
	Fund balances:						
	Nonspendable fund balance:						
3410	Investments in inventory	196,608	257,488	-	-	-	454,096
3430	Prepaid items	14,351	-	-	-	-	14,351
	Restricted fund balance:						
3450	Federal or state funds grant restriction	-	764,202	-	-	-	764,202
3470	Capital acquisition and contractural obligation	-	-	-	28,150,212	-	28,150,212
3480	Retirement of long-term debt	-	-	2,356,500	-	-	2,356,500
	Committed fund balance:						
3510	Construction and other major improvements	1,709,929	-	-	-	-	1,709,929
3530	Capital expenditures for equipment	518,297	-	-	-	-	518,297
	Assigned fund balance:						
3550	Construction and other major improvements	183,652	-	-	-	-	183,652
3570	Capital expenditures for equipment	93,000	-	-	-	-	93,000
3590	Other assigned fund balance	222,816	-	-	-	-	222,816
3600	Unassigned fund balance	27,424,965	-	-	-	-	27,424,965
	Total fund balances	30,363,618	1,021,690	2,356,500	28,150,212	-	61,892,020
	Total liabilities and fund balances	$ 39,355,934	1,665,638	3,274,545	38,113,340	5,036,039	87,445,496

Waco Independent School District

Reconciliation of Fund Balances of Governmental Funds to Net Assets of Governmental Activities

August 31, 2011

Data Control Codes			
3600	Fund balances - total governmental funds (Exhibit C-1)	$	61,892,020
	Amounts reported for governmental activities in the statement of net assets (Exhibit A-1) are different because:		
1	The internal service fund is used by management to charge the costs of workers' compensation insurance to individual funds. The assets and liabilities of the internal service fund is included in governmental activities in the statement of net assets.		292,791
2	Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		204,462,352
3	Long-term liabilities and accrued interest payable are not due and payable in the current period and therefore are not reported in the funds.		(208,257,980)
4	Certain bond issuance costs are not capitalized at the fund level.		287,597
5	Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds, i.e. current and prior years' tax levies assumed to be collectible.		1,401,972
	Net assets of governmental activities (Exhibit A-1)	$	60,078,752

Waco Independent School District

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds

For the Year Ended August 31, 2011

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	$ 41,419,540	768,144	12,412,467	639,393	1,810,937	57,050,481
5800	State program revenues	64,466,375	55,708	3,085,691	-	3,420,496	71,028,270
5900	Federal program revenues	3,663,458	8,270,536	-	256,838	22,779,081	34,969,913
5020	Total revenues	109,549,373	9,094,388	15,498,158	896,231	28,010,514	163,048,664
	EXPENDITURES						
	Current:						
6011	Instruction	56,015,750	-	-	-	18,618,430	74,634,180
6012	Instructional resources and media services	1,102,813	-	-	-	101,323	1,204,136
6013	Curriculum and instructional staff development	1,220,018	-	-	-	4,927,803	6,147,821
6021	Instructional leadership	1,845,304	-	-	-	517,076	2,362,380
6023	School leadership	8,215,369	-	-	-	492,160	8,707,529
6031	Guidance, counseling and evaluation services	3,444,852	-	-	-	904,872	4,349,724
6032	Social work services	709,794	-	-	-	106,586	816,380
6033	Health services	1,141,046	-	-	-	18,645	1,159,691
6034	Student transportation services	2,858,125	-	-	-	-	2,858,125
6035	Food services	-	8,616,619	-	-	574,829	9,191,448
6036	Cocurricular/extracurricular activities	3,403,756	-	-	-	31,413	3,435,169
6041	General administration	3,523,976	-	-	-	-	3,523,976
6051	Plant maintenance and operations	14,915,526	344,770	-	-	59,256	15,319,552
6052	Security and monitoring services	1,806,187	-	-	-	61,842	1,868,029
6053	Data processing services	4,117,074	-	-	-	3,406	4,120,480
6061	Community services	1,098,124	-	-	-	1,412,411	2,510,535
6093	Payments to fiscal agent/member districts of shared services arrangements	143,000	-	-	-	55,462	198,462
6095	Payments to Juvenile Justice Alternative Education Program	640,408	-	-	-	-	640,408
6097	Payments to tax increment zone	2,050,148	-	544,109	-	-	2,594,257
6099	Other intergovernmental charges	606,403	-	-	-	-	606,403
	Debt service:						
6071	Principal	675,000	-	4,960,075	-	-	5,635,075
6072	Interest	287,928	-	10,489,491	-	-	10,777,419
6073	Bond issuance cost and fees	5,750	-	3,350	-	-	9,100
	Capital outlay:						
6081	Facilities acquisition and construction	275,568	-	-	51,727,039	125,000	52,127,607
6030	Total expenditures	110,101,919	8,961,389	15,997,025	51,727,039	28,010,514	214,797,886
1100	Excess (deficiency) of revenues over (under) expenditures	(552,546)	132,999	(498,867)	(50,830,808)	-	(51,749,222)
	OTHER FINANCING SOURCES						
7912	Sale of real and personal property	1,645,000	-	-	-	-	1,645,000
7949	Insurance recovery	39,637	-	-	-	-	39,637
	Total other financing sources	1,684,637	-	-	-	-	1,684,637
1200	Net change in fund balances	1,132,091	132,999	(498,867)	(50,830,808)	-	(50,064,585)
0100	Fund balances, beginning	29,231,527	888,691	2,855,367	78,981,020	-	111,956,605
3000	Fund balances, ending	$ 30,363,618	1,021,690	2,356,500	28,150,212	-	61,892,020

See accompanying notes to financial statements

Waco Independent School District

Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to Statement of Activities

For the Year Ended August 31, 2011

Net changes in fund balances - total governmental funds (Exhibit C-3)	$	(50,064,585)
Amounts reported for governmental activities in the statement of activities (Exhibit B-1) are different because:		
Governmental funds 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.		48,442,626
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.		(1,475,772)
The issuance of long-term debt (e.g. bonds, 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.		6,144,657
Accrued interest on long-term debt is not recognized in the fund statements since it does not require the use of current financial resources. The net effect of recognizing these liabilities in the current year is to increase net assets.		100,214
The internal service fund is used by management to charge the costs of workers' compensation insurance to individual funds. The net loss of the internal service fund is reported with governmental activities.		(12,180)
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 increase net assets.		98,097
Changes in net assets of governmental activities (Exhibit B-1)	$	3,233,057

Waco Independent School District

Statement of Net Assets
Proprietary Fund

August 31, 2011

	Business-type Activities	Governmental Activities
	Enterprise Fund	Internal Service Fund
ASSETS		
Current assets:		
Due from other funds	$ -	1,156,643
Total assets	-	1,156,643
LIABILITIES		
Current liabilities:		
Accounts payable	2,781	23,802
Accrued wages payable	555	-
Due to other funds	266,275	-
Accrued expenses	-	840,050
Total liabilities	269,611	863,852
NET ASSETS		
Unrestricted net assets (deficit)	(269,611)	292,791
Total net assets	$ (269,611)	292,791

Waco Independent School District

Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Fund

Year Ended August 31, 2011

	Business-type Activities	Governmental Activities
	Enterprise Fund	Internal Service Fund
Operating revenues:		
Charges for services	$ 44,061	-
Assessments to other funds	-	545,628
Total operating revenues	44,061	545,628
Operating expenses:		
Payroll costs	150,254	-
Professional and contracted services	6,297	90,826
Supplies and materials	72,436	-
Other operating expenses	1,487	-
Claims expense	-	466,982
Total operating expenses	230,474	557,808
Operating loss	(186,413)	(12,180)
Non-operating revenue:		
Operating grant	-	-
Total non-operating revenue	-	-
Change in Net Assets	(186,413)	(12,180)
Total net assets, beginning	(83,198)	304,971
Total net assets, ending	$ (269,611)	292,791

Waco Independent School District

Statement of Cash Flows
Proprietary Fund

For the Year Ended August 31, 2011

	Business-type Activities	Governmental Activities
	Enterprise Fund	Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from charges for services	$ 44,061	-
Cash received from assessments to other funds	-	545,628
Cash payments to employees for services	(44,061)	-
Cash payments for insurance claims	-	(454,802)
Cash payments for other operating expenses	-	(90,826)
Net cash provided by operating activities	-	-
Net increase in cash and cash equivalents	-	-
Cash and cash equivalents at beginning of year	-	-
Cash and cash equivalents at end of year	$ -	-
Reconciliation of operating income to net cash provided by operating activities:		
Operating loss	$ (186,413)	(12,180)
Effects of increases and decreases in assets and liabilities:		
Decrease in due from other funds	-	27,169
Decrease in accounts payable	(22,402)	(25,574)
Increase in accrued wages payable	555	-
Increase in due to other funds	208,260	-
Increase in accrued expenses	-	10,585
Net cash provided by operating activities	$ -	-

See accompanying notes to financial statements

Waco Independent School District

Statement of Fiduciary Net Assets
Fiduciary Funds

August 31, 2011

	Private Purpose Trust Fund	Agency Fund
ASSETS		
Cash and cash equivalents	$ 14,269	512,301
Accrued interest	20	-
Due from other funds	278	17,083
Total assets	14,567	529,384
LIABILITIES		
Accounts payable	-	42,519
Due to other funds	-	52,193
Due to student groups	-	434,672
Total liabilities	-	529,384
NET ASSETS		
Restricted for scholarships	14,567	
Total net assets	$ 14,567	

See accompanying notes to financial statements

Waco Independent School District

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds

For the Year Ended August 31, 2011

	Private Purpose Trust Fund
ADDITIONS	
Contributions:	
Interest on investments	$ 136
Total contributions	136
DEDUCTIONS	
Scholarships awarded	16
Total deductions	16
Change in net assets	120
Net assets, beginning	14,447
Net assets, ending	$ 14,567

See accompanying notes to financial statements

I. Summary of Significant Accounting Policies

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

A. Reporting Entity

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

B. Government-wide and Fund Financial Statements

The Statement of Net 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.

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. The District considers them "available" if they will be collected within 60 days of the end of the fiscal year. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant. Accordingly, when such funds are received, they are recorded as deferred revenues until related and authorized expenditures have been made. If balances have not been expended by the end of the project period, grantors sometimes require the District to refund all or part of the unused amount.

The Proprietary Fund Types and Fiduciary Funds are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. The District applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless these pronouncements conflict or contradict GASB pronouncements. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the fund Statement of Net 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.

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 purposed 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. GAAP 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.

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 and unemployment insurance 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..

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 and a regional purchasing cooperative. Since agency funds are custodial in nature, they do not involve the measurement of operations.

E. Other Accounting Policies

1. Cash and cash equivalents -- For purposes of the statement of cash flows for proprietary funds, the District considers highly liquid investments, i.e., cash on hand, demand deposits, public funds investment pools, certificates of deposit and short-term investments with original maturities of three months 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, individual 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.

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

   Assigned – Represents amounts, which the District intends to use for a specific purpose, that do not meet the criteria to be classified as restricted or committed. Intent may be stipulated by the Board or by an official or body to which the Board delegates the authority. The Board has authorized the Superintendent to assign a portion of the fund balance, not to exceed one percent of the annual operating expenditures, as may be required to meet the financial needs of the District. Specific amounts that are not restricted or committed in a special revenue, capital projects, debt service, or permanent fund are assigned for purposes in accordance with the nature of their fund type or the fund's primary purpose. Assignments within the general fund convey that the intended use of those amounts is for a specific purpose that is narrower than the general purposes of the District itself. Assignments can be made at any time.

   Unassigned – Represents amounts which are unconstrained in that they may be spent for any purpose. Only the general fund reports a positive unassigned fund balance. Other governmental funds might report a negative balance in this classification because of overspending for specific purposes for which amounts had been restricted, committed or assigned.

   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, since outstanding purchase orders demonstrate the District's intent to spend the resources.

E. Other Accounting Policies (continued)

9. Blended component unit -- Generally accepted accounting principles require financial statements to present the government and its component units, entities for which the government is considered financially accountable. Based on these criteria, the Waco Independent School District Public Facilities Corporation (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 a majority of the members of the Board. Amendments are presented to the Board at its regular meetings. As required by law, such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year end. Consistent with the prior year, funds received through the American Recovery and Reinvestment Act and used to offset a shortfall in the state's budget, were included in the original general fund budget and later amended out and accounted for in a special revenue fund. Because the District has a policy of careful budgetary control, other amendments were necessary during the year. The Board made several 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.

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

A. Budgetary Data (continued)

5. While budgets are not legally adopted for other Special Revenue funds, Capital Projects funds or the Internal Services fund, budgets are prepared for these funds as a management tool and to ensure that resources were obtained and used in accordance with other finance-related legal or contractual requirements. Specific projects are individually authorized by the Board of Trustees for construction funded from proceeds of long-term debt financing

B. Excess of Expenditures over Appropriations

Functional expenditures did not exceed appropriations for the year ended August 31, 2011.

III. Detailed Notes on All Funds and Account Groups

A. Deposits and Investments

1. District Policies and Legal and Contractual Provisions Governing Deposits

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

The combined balance of cash, savings and time deposit accounts on that date amounted to $29,641,146 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, 2011, the District's cash and investment balances were as follows:

	Total Fair Value	Governmental Activities	Fiduciary Funds
Cash and cash equivalents:			
Cash in bank	$ 26,734,755	26,222,454	512,301
Cash equivalents:			
Certificates of deposit	5,073,575	5,059,306	14,269
Insured cash shelter	7,531,951	7,531,951	-
Money market accounts	9,825	9,825	-
Public funds investment pools	31,355,261	31,355,261	-
Total cash equivalents	43,970,612	43,956,343	14,269
Total cash and cash equivalents	70,705,367	70,178,797	526,570
Investments	-	-	-
Total deposits and investments	$ 70,705,367	70,178,797	526,570

2. **Deposits and Investments (continued)**

2. A summary of investment accounts are as follows:

Certificates of Deposit – The District has multiple CD's at various banks. The collateral for these certificates are held at the Federal Home Loan Bank of Dallas, the Federal Home Loan Bank in Atlanta, and The Independent Bankers Bank in Texas in the District's name.

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. 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.

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, 2011, 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.

A. Deposits and Investments (continued)

4. Weighted average maturity of investments were as follows:

	Fair Value	Weighted Average Maturity (in Days)
Cash equivalents:		
Certificates of deposit:		
Community Bank & Trust	$ 1,019,347	30
Compass Bank	3,000,000	30
Fidelity Bank of Texas	1,039,959	71
Fiduciary Funds	14,269	971
Insured Cash Shelter	7,531,951	1
Money market accounts	9,825	1
Public funds investment pools:		
Lone Star	7,988,927	1
MBIA	1,086,600	1
TexPool	13,010,091	1
TexStar	176,657	1
TexasTERM	9,092,986	1
Total deposits and investments	$ 43,970,612	
Portfolio weighted average maturity		6
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, 2010, on which the 2010 levy was based, was $3,833,148,214. The District's maintenance and operations rate levied in 2010 was $1.04000 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 2010 was $0.32475 per $100 of valuation.

C. Delinquent Taxes Receivable

Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectible tax receivables within the General and Debt Service Funds are based on historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

D. Interfund Balances and Transfers

Interfund balances result from the time lag between the dates that reimbursable expenditures occur and payments between funds are made. Interfund balances at August 31, 2011, consisted of the following amounts:

Funds	Receivable	Payable
General fund	$ 5,250,639	2,196,293
National School Breakfast and Lunch fund	313,509	-
Debt service fund	-	2,370
Capital projects funds	-	1,591,212
Other non-major governmental funds	708,780	3,338,589
Enterprise fund	-	266,275
Internal service fund	1,156,643	-
Private purpose trust fund	278	-
Agency funds	17,083	52,193
	$ 7,446,932	7,446,932

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, 2011 consisted of the following:

	General Fund	National School Lunch and Breakfast Fund	Debt Service Fund	Other Governmental Funds	Total
Unavailable:					
Delinquent property taxes	$ 1,065,135	-	336,837	-	1,401,972
Unearned:					
State revenue	-	-	578,838	-	578,838
Grant draw downs received prior to meeting all eligibility requirements:					
USDA Commodities	-	17,193	-	-	17,193
Other federal programs	-	-	-	1,169	1,169
State programs:					
Professional Staff Development	-	-	-	2,269	2,269
Advanced Placement Incentives	-	-	-	26,639	26,639
Prekindergarten Expansion Grant	-	-	-	6,384	6,384
School Leadership Pilot	-	-	-	5,228	5,228
TWC Apprenticeship	-	-	-	37,787	37,787
Texas Ready to Read	-	-	-	6,614	6,614
State Deaf Education				22,001	22,001
Challenge Academy	-	-	-	3,353	3,353
Day School for the Deaf	-	-	-	268,473	268,473
Foundation Grants	-	-	-	224,965	224,965
Local grants	-	-	-	148,555	148,555
	$ 1,065,135	17,193	915,675	753,437	2,751,440

F. Capital Asset Activity

Capital asset activity for the District for the year ended August 31, 2011, was as follows:

	Balance September 1, 2010	Additions	Deletions	Reclassifications	Balance August 31, 2011
Capital assets, not being depreciated:					
Land	$ 10,153,246	360,493	(47,302)	-	10,466,437
Construction in progress	70,673,563	44,359,967	-	(106,920,837)	8,112,693
Total capital assets, not being depreciated	80,826,809	44,720,460	(47,302)	(106,920,837)	18,579,130
Capital assets, being depreciated:					
Buildings and improvements	157,014,161	1,064,515	(8,312,951)	106,920,837	256,686,562
Furniture, equipment and vehicles	20,578,319	7,312,166	(243,321)	-	27,647,164
Total capital assets, being depreciated	177,592,480	8,376,681	(8,556,272)	106,920,837	284,333,726
Less accumulated depreciation for:					
Buildings and improvements	90,846,807	2,795,703	(6,915,347)	-	86,727,163
Furniture, equipment and vehicles	10,076,984	1,858,812	(212,455)	-	11,723,341
Total accumulated depreciation	100,923,791	4,654,515	(7,127,802)	-	98,450,504
Total capital assets, being depreciated, net	76,668,689	3,722,166	(1,428,470)	106,920,837	185,883,222
Governmental activities capital assets, net	$ 157,495,498	48,442,626	(1,475,772)	-	204,462,352

F. Capital Asset Activity (continued)

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

Function	Description	Amount
11	Instruction	$ 2,080,214
12	Instructional resources and media services	51,382
13	Curriculum and instructional staff development	3,530
21	Instructional leadership	16,127
23	School leadership	42,746
31	Guidance, counseling and evaluation services	11,825
33	Health services	14,845
34	Student transportation	600,022
35	Food services	200,312
36	Extracurricular activities	480,759
41	General administration	48,553
51	Plant maintenance and operations	136,107
52	Security and monitoring services	36,971
53	Data processing services	208,302
61	Community services	27,995
81	Facilities acquisition and construction	694,825
Total depreciation expense - governmental activities		$ 4,654,515

G. 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 is intended to be self-sustaining through user charges, the operation is accounted for as an Enterprise fund. At August 31, 2010, the fund had deficit net assets of $83,198 from start-up costs. At August 31, 2011, after its first year of operation, the deficit had grown to $269,611. Unless the operating revenues begin to cover operating expenses, the District will close the child care center. The fund's deficit will be covered by the General Fund.

H. 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, 2011.

	Balance September 1, 2010	Increases	Decreases	Balance August 31, 2011	Due Within One Year
Bonds payable:					
General obligation bonds, maintenance tax notes and lease revenue bonds	$ 209,649,993	-	(5,635,075)	204,014,918	5,734,917
Deferred amounts:					
For issuance premiums	5,399,045	-	(775,399)	4,623,646	-
On refunding	(1,823,211)	-	170,689	(1,652,522)	-
Accumulated accretion	754,663	329,617	(261,315)	822,965	-
Total long-term debt payable	$ 213,980,490	329,617	(6,501,100)	207,809,007	5,734,917

H. Long-Term Debt (continued)

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, 2011, $28,085,000 of bonds considered defeased are still outstanding.

General obligation debt at August 31, 2011, is comprised of 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%	$	4,830,000
$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%		12,669,918
$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%		4,460,000
$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%		124,370,000
$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%		7,355,000
Total general obligation bonds		198,869,918
$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%		2,510,000
$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%		2,635,000
Total lease revenue bonds and maintenance tax notes		5,145,000
Total long-term debt	$	204,014,918

H. 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
2012	$ 5,029,918	10,374,574	15,404,492
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
2017-2021	32,035,000	41,883,943	73,918,943
2022-2026	30,740,000	33,280,552	64,020,552
2027-2031	37,355,000	23,533,938	60,888,938
2032-2036	47,820,000	13,066,000	60,886,000
2037-2038	22,640,000	1,711,750	24,351,750
	198,869,918	160,630,145	359,500,063
Less interest accretion in future years	2,877,105		
Total prinicipal due as of August 31, 2011	$ 195,992,813		

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, 2011.

Summary information for the capital appreciation bonds is as follows:

Series	Original Amount Outstanding	Accreted Value August 31, 2011
Unlimited Tax Refunding Bonds, Series 2004	$ 958,832	1,241,109
Unlimited Tax Refunding Bonds, Series 2006	422,085	514,577
Unlimited Tax School Building Bonds, Series 2009	4,550,010	4,971,336
Unlimited Tax Refunding Bonds, Series 2010	679,001	705,871
Total	$ 6,609,928	7,432,893

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
2012	$ 705,000	256,325	961,325
2013	740,000	223,201	963,201
2014	775,000	188,400	963,400
2015	810,000	148,125	958,125
2016	845,000	105,913	950,913
2017-2020	1,270,000	144,650	1,414,650
Totals	$ 5,145,000	1,066,613	6,211,613

I. 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 8701, 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% for fiscal years 2011, 2010, and 2009, a state contribution rate of 6.4% for fiscal years 2011, 2010 and 2009. In certain instances the reporting district is required to make all or a portion of the state's 6.4% contribution. Contribution requirements are not actuarially determined but are legally established each biennium pursuant to the following state funding policy: (1) The state constitution requires the legislature to establish a member contribution rate of not less than 6.0% of the member's annual compensation and a state contribution rate of not less than 6.0% and not more than 10.0% of the aggregate annual compensation of all members of the system during that fiscal year; (2) A state statute prohibits benefit improvements or contribution reductions if, as a result of a the particular action, the time required to amortize TRS's unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action.

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

	Year Ended August 31, 2011	Year Ended August 31, 2010	Year Ended August 31, 2009
State TRS on-behalf contributions	$ 3,635,386	3,536,208	3,577,478
District contributions for above statutory minimum	786,532	728,741	734,577
Total	$ 4,421,918	4,264,949	4,312,055

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

J. 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% and 0.65% of public school payroll respectively, with school districts contributing a percentage of paid wages set at 0.55% for fiscal years 2011, 2010, and 2009. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. The contributions to TRS-Care made by the State, active employees, and the District for fiscal years 2011, 2010, and 2009 are as follows:

	Year Ended August 31, 2011	Year Ended August 31, 2010	Year Ended August 31, 2009
State TRS on-behalf contributions	$ 697,661	694,004	273,097
Active member's contributions	550,318	497,984	529,881
District contributions to TRS Care	602,022	629,063	543,506
Total	$ 1,850,001	1,821,051	1,346,484

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 $203,872, $195,271, and $167,958 for fiscal years 2011, 2010, and 2009, respectively. Revenue and expenditures equal to the amount paid by the federal government were recognized for the three years. Information was not available to record these amounts in prior fiscal years. The recording of the revenue and expenditures paid on behalf of the District would have no effect on previously reported fund balance or net assets.

K. 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.

Fund	State Entitlements	Federal Grants	Other Governments	Total
General	$ 3,728,409	4,316	-	3,732,725
Special Revenue	325,210	3,828,576	37,694	4,191,480
Total	$ 4,053,619	3,832,892	37,694	7,924,205

L. Revenue from Local and Intermediate Sources

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

	General Fund	National School Breakfast and Lunch Fund	Debt Service Fund	Capital Projects Funds	Other Governmental Funds	Total
Property taxes, penalties, interest, and other tax related income	$ 39,856,312	-	12,402,530	-	-	52,258,842
Food sales	-	767,451	-	-	-	767,451
Investment income	138,690	693	9,357	639,393	327	788,460
Extracurricular activities	556,949	-	-	-	-	556,949
Tuition and fees	532,042	-	-	-	-	532,042
SSA revenue from member districts	55,462	-	-	-	1,277,801	1,333,263
Other	280,085	-	580	-	532,809	813,474
	$ 41,419,540	768,144	12,412,467	639,393	1,810,937	57,050,481

M. Economic Dependency

During the year ended August 31, 2011, the District received 44% of its revenues from the State of Texas and 21% from federal sources. This is comparable to the prior year however both years show a 4% in federal funding from 2008-09. This increase is due to the State's reliance on temporary federal stimulus funding to cover it's obligations under the Foundation School Program.

N. 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, 2011, the District was party to construction contracts totaling approximately $109.4 million of which $90.7 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.

O. 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. In addition to Waco ISD, other member districts include Axtell ISD, Bosqueville ISD, Bruceville-Eddy ISD, China Spring ISD, Connally ISD, Crawford ISD, La Vega ISD, Lorena ISD, the Bill Logue Juvenile Detention Center, Mart ISD, McGregor ISD, the Methodist Home, Midway ISD, Moody ISD, Riesel ISD, Robinson ISD, and West ISD. 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 on the following page.

	Student Days Attended	Fund 446 McLennan Co. Challenge Academy
Axtell I.S.D.	110	$ 9,530
Bosqueville I.S.D.	9	780
Bruceville-Eddy I.S.D.	369	31,968
China Spring I.S.D.	312	27,030
Connally I.S.D.	517	44,791
Crawford I.S.D.	121	10,483
La Vega I.S.D.	890	77,106
Lorena I.S.D.	248	21,486
Bill Logue Juvenile Detention Center	465	40,285
Mart I.S.D.	1	87
McGregor I.S.D.	496	42,971
Methodist Home	110	9,530
Midway I.S.D.	500	43,318
Moody I.S.D.	98	8,490
Riesel I.S.D.	6	520
Robinson I.S.D.	110	9,530
Waco I.S.D.	8,906	771,575
West I.S.D.	70	6,064
	13,338	$ 1,155,544

The District is also the fiscal agent for a Shared Services Arrangement ("SSA") which provides special education services for the deaf to member districts. In addition to Waco ISD, other member districts include Axtell ISD, Connally ISD, the Educational Cooperative of Central Texas, the Falls County Cooperative, Hill County, Heart of Texas Cooperative, La Vega ISD, Midway ISD, and Robinson ISD. 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 Funds No. 315, 316, 317, 340, 435, and 458. Member districts' contributions are accounted for in fund 458. Expenditures of the SSA are summarized as follows:

Member	Number of Students	Fund 458 Local Funds Day School for the Deaf
Axtell I.S.D.	1	$ 9,149
Connally I.S.D.	2	18,299
Educational Cooperative of Central Texas	1	9,149
Falls County Cooperative	1	9,149
Hill County	2	18,299
Heart of Texas Cooperative	1	9,149
La Vega I.S.D.	2	18,299
Midway I.S.D.	4	36,597
Robinson I.S.D.	2	18,299
Waco I.S.D.	11	100,642
Total Expenditures	27	$ 247,031

P. Related Organizations

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

Q. 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, 2011, 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 2010-11 plan year, the excess coverage insurance policy covers claims in excess of $797,038. The Fund performs an evaluation of worker compensation claims submitted incidents occurring prior to August 31, 2011, and has projected open claims and incurred but not reported claims for all years will cost $840,050.

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

Fiscal Year	Beginning of Year Accrual	Current Year Estimates	Claims Payment	End of Year Accrual
2009	$ 856,342	312,623	385,363	783,602
2010	783,602	470,256	424,393	829,465
2011	829,465	252,988	242,403	840,050

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

Q. Arbitrage

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

The Act requires issuers of tax-exempt debt to make payments to the 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, 2011 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, 2011

Data Control Codes		Budgeted Amounts Original	Budgeted Amounts Final	Actual	Variances With Final Budget
	REVENUES				
5700	Local and intermediate sources	$ 41,180,000	41,223,282	41,419,540	196,258
5800	State program revenues	66,317,037	66,317,037	64,466,375	(1,850,662)
5900	Federal program revenues	11,424,252	3,773,701	3,663,458	(110,243)
5020	Total revenues	118,921,289	111,314,020	109,549,373	(1,764,647)
	EXPENDITURES				
	Current:				
6011	Instruction	62,942,748	57,577,175	56,015,750	1,561,425
6012	Instructional resources and media services	1,133,691	1,114,340	1,102,813	11,527
6013	Curriculum and instructional staff development	1,402,583	1,228,834	1,220,018	8,816
6021	Instructional leadership	2,300,965	2,237,017	1,845,304	391,713
6023	School leadership	8,694,819	8,502,143	8,215,369	286,774
6031	Guidance, counseling and evaluation services	3,502,328	3,491,303	3,444,852	46,451
6032	Social work services	805,081	759,422	709,794	49,628
6033	Health services	1,205,052	1,152,027	1,141,046	10,981
6034	Student transportation services	2,774,255	3,409,581	2,858,125	551,456
6036	Cocurricular/extracurricular activities	3,566,069	3,656,287	3,403,756	252,531
6041	General administration	3,666,977	3,651,333	3,523,976	127,357
6051	Plant maintenance and operations	16,264,930	15,981,623	14,915,526	1,066,097
6052	Security and monitoring services	2,061,021	2,059,178	1,806,187	252,991
6053	Data processing services	2,412,352	4,312,344	4,117,074	195,270
6061	Community services	1,183,324	1,187,889	1,098,124	89,765
6093	Payments to fiscal agent/member districts of shared services arrangements	213,000	193,000	143,000	50,000
6095	Payments to Juvenile Justice Alternative Education Program	678,001	698,001	640,408	57,593
6097	Payments to tax increment fund	2,500,880	2,500,880	2,050,148	450,732
6099	Other intergovernmental charges	640,300	640,300	606,403	33,897
	Debt service:				
6071	Debt service - principal on long term debt	675,000	675,000	675,000	-
6072	Debt service - interest on long term debt	287,913	287,928	287,928	-
6073	Debt service - bond issuance cost and fees	10,000	9,985	5,750	4,235
	Capital outlay:				
6081	Facilities acquisition and construction	-	757,616	275,568	482,048
6030	Total expenditures	118,921,289	116,083,206	110,101,919	5,981,287
1100	Excess (deficiency) of revenues over (under) expenditures	-	(4,769,186)	(552,546)	4,216,640
	OTHER FINANCING SOURCES (USES)				
7912	Sale of real and personal property	-	1,645,000	1,645,000	-
7949	Insurance Recovery	-	-	39,637	39,637
	Total other financing sources (uses)	-	1,645,000	1,684,637	39,637
1200	Net change in fund balances	-	(3,124,186)	1,132,091	4,256,277
0100	Fund balances, beginning	26,450,760	29,231,527	29,231,527	-
3000	Fund balances, ending	$ 26,450,760	26,107,341	30,363,618	4,256,277

See notes to Schedule of Revenues, Expenditures and Changes in Fund Balance

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, 2011

Budgetary Information

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

Functional expenditures did not exceed appropriations for the year ended August 31, 2011.

Supplemental Information

Waco Independent School District

Schedule of Delinquent Taxes Receivable

For the Year Ended August 31, 2011

Last Ten Years Ended August 31,	1 Tax Rates Maintenance & Operation	2 Tax Rates Debt Service	3 Assessed Appraised Value For School Tax Purposes
2002 and prior years	$ Various	Various	Various
2003	1.36650	0.11850	2,260,405,653
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 (school year under audit)	1.04000	0.32475	3,833,148,214
100 Totals			
9000 Taxes paid into Tax Increment Financing Zone under Chapter 311, Tax Code (included in above totals) for 2011			$ 190,632,570

10	20	31	32	40	50
Balance September 1, 2010	Current Year's Total Levy	Total Collections: Maintenance & Operations	Total Collections: Debt Service	Entire Year's Adjustments	Balance August 31, 2011
465,049	-	7,621	860	(74,738)	381,830
124,020	-	2,015	175	(1,701)	120,129
132,776	-	5,267	444	(4,325)	122,740
148,515	-	6,824	570	(4,268)	136,853
186,533	-	9,446	774	(1,763)	174,550
234,113	-	20,282	1,872	(630)	211,329
259,339	-	39,707	4,658	(3,826)	211,148
474,007	-	108,326	33,236	(11,604)	320,841
1,393,364	-	503,542	157,978	(153,830)	578,014
-	52,312,890	38,670,667	12,075,289	(193,405)	1,373,529
3,417,715	52,312,890	39,373,697	12,275,856	(450,090)	3,630,963
144,081	2,601,658	1,742,294	543,636	(61,348)	398,461

Waco Independent School District

Schedule of Expenditures for Computations of Indirect Costs - General and Special Revenue Funds

For the Year Ended August 31, 2011

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	$ 365	-	155,584	1,935,244	-	-	2,091,193
6149	Leave for separating employees in fnc 41, 53	-	-	-	6,351	-	-	6,351
6149	Leave for separating employees not in fnc 41, 53	-	-	-	-	-	-	-
6211	Legal services	17,368	-	130,131	-	33,485	-	180,984
6212	Audit services	-	-	-	56,580	-	-	56,580
6213	Tax appraisal and collection	-	742,621	-	-	-	-	742,621
6219	Other professional services	25,000	-	-	-	-	-	25,000
6230	Education Service Centers	-	-	-	32,431	-	-	32,431
6240	Contracted maintenance and repairs	-	-	-	-	38,372	-	38,372
6250	Utilities	-	-	-	-	1,196	-	1,196
6260	Rentals	-	-	4,072	41,515	-	-	45,587
6290	Miscellaneous contracted services	3,952	-	36,451	196,484	-	-	236,887
6320	Textbooks and reading materials	-	-	105	1,684	-	-	1,789
63XX	Other supplies and materials	601	-	8,756	196,663	-	-	206,020
6410	Travel and stipends	7,031	-	1,730	21,242	-	-	30,003
6420	Insurance and bonding costs	-	-	-	89,578	-	-	89,578
6430	Election costs	60,744	-	-	-	-	-	60,744
6490	Miscellaneous operating costs	19,889	-	28,842	109,851	-	-	158,582
6600	Capital outlay	-	-	-	-	-	126,461	126,461
6000	Total	$ 134,950	742,621	365,671	2,687,623	73,053	126,461	4,130,379

Total expenditures for General and Special Revenue Funds			(9) $	147,073,822
Less: deductions of unallowable costs:				
FISCAL YEAR				
Total capital outlay (6600 costs)	(10)	$ 1,370,102		
Total debt and lease (6500 costs)	(11)	968,678		
Plant maintenance (function 51, 6100-6400)	(12)	15,148,108		
Food (function 35, 6341 and 6499)	(13)	4,005,008		
Column 4 (above) - total indirect cost		$ 2,687,623		
Subtotal				24,179,519
Net allowed direct costs			$	122,894,303
CUMULATIVE				
Total cost of buildings before depreciation			(15) $	256,403,695
Historical cost of building over 50 years old			(16) $	67,030,730
Amount of federal money in building cost			(17) $	-
Total cost of furniture and equipment before depreciation			(18) $	27,647,164
Historical cost of furniture and equipment over 16 years old			(19) $	2,878,344
Amount of federal money in furniture and equipment			(20) $	1,490,485

Waco Independent School District

Fund Balance and Cash Flow Calculation Worksheet - General Fund
(Unaudited)

August 31, 2011

Data Control Code	Explanation	Amount	
1	Total general fund balance as of August 31, 2010 (Exhibit C-1 object 3000 for the general fund only)		$ 30,363,618
2	Total non-spendable fund balance (from Exhibit C-1 - total of object 3400s for the general fund only)	$ 210,959	
3	Total restricted fund balance (from Exhibit C-1 - total of object 3500s for the general fund only)	-	
4	Total committed fund balance (from Exhibit C-1 - total of object 3500s for the general fund only)	2,228,226	
5	Total assigned fund balance (from Exhibit C-1 - total of object 3500s for the general fund only)	499,468	
6	Estimated amount needed to cover fall cash flow deficits in the general fund (net of borrowed funds and funds representing deferred revenues)	-	
7	Estimate of two month's average cash disbursements during the regular school session (9/1/11 - 5/31/12)	17,434,157	
8	Estimate of delayed payments from State sources (58XX) including August payment delays	327,836	
9	Estimate of underpayment from State sources equal to variance between Legislative Payment Estimate (LPE) and District Planning Estimate (DPE) or District's calculated earned State aid amount	3,317,277	
10	Estimate of delayed payments from federal sources (59XX)	3,898,126	
11	Estimate of expenditures to be reimbursed to general fund from capital projects fund (uses of general fund cash after bond referendum and prior to issuance of bonds)	1,591,212	
12	Optimum fund balance and cash flow (lines 2 through 10)		29,507,261
13	Excess (Deficit) undesignated unreserved general fund balance (line 1 minus line 12)		$ 856,357

Explanation of need for and/or projected use of net positive Undesignated Unreserved General Fund Balance:

The Board of Trustees has a fund balance goal of 20% of appropriations. At August 31, 2011, the ratio of unassigned general fund balance to expenditures was 24.9%. Anticipating significant reductions in revenue for the 2011-12 fiscal year, these excess funds will be utilized in covering losses in revenue.

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, 2011

Data Control Codes		Budgeted Amounts Original	Budgeted Amounts Final	Actual	Variances With Final Budget
	REVENUES				
5700	Local and intermediate sources	$ 798,190	798,190	768,144	(30,046)
5800	State program revenues	142,494	142,494	55,708	(86,786)
5900	Federal program revenues	7,975,500	7,975,500	8,270,536	295,036
5020	Total revenues	8,916,184	8,916,184	9,094,388	178,204
	EXPENDITURES				
	Current:				
6035	Food services	8,703,006	8,703,006	8,616,619	86,387
6051	Plant maintenance and operations	347,500	347,500	344,770	2,730
6030	Total expenditures	9,050,506	9,050,506	8,961,389	89,117
1100	Excess (deficiency) of revenues over (under) expenditures	(134,322)	(134,322)	132,999	267,321
1200	Net change in fund balances	(134,322)	(134,322)	132,999	267,321
0100	Fund balances, beginning	478,430	888,691	888,691	-
3000	Fund balances, ending	$ 344,108	754,369	1,021,690	267,321

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, 2011

Data Control Codes		Budgeted Amounts Original	Budgeted Amounts Final	Actual	Variances With Final Budget
	REVENUES				
5700	Local and intermediate sources	$ 12,426,887	12,426,887	12,412,467	(14,420)
5800	State program revenues	3,678,478	3,678,478	3,085,691	(592,787)
5020	Total revenues	16,105,365	16,105,365	15,498,158	(607,207)
	EXPENDITURES				
	Current:				
6097	Payments to tax increment fund	653,825	653,825	544,109	109,716
	Debt service:				
6071	Debt service - principal on long-term debt	4,960,075	4,960,075	4,960,075	-
6072	Debt service - interest on long-term debt	10,489,491	10,489,491	10,489,491	-
6073	Debt service - bond issuance cost and fees	15,000	15,000	3,350	11,650
6030	Total expenditures	16,118,391	16,118,391	15,997,025	121,366
1100	Excess (deficiency) of revenues over (under) expenditures	(13,026)	(13,026)	(498,867)	(485,841)
1200	Net change in fund balances	(13,026)	(13,026)	(498,867)	(485,841)
0100	Fund balances, beginning	3,279,597	2,855,367	2,855,367	-
3000	Fund balances, ending	$ 3,266,571	2,842,341	2,356,500	(485,841)

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, 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, 2011, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 12, 2012. 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

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 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 the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control 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.

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Governmental Audit Quality Center
AICPA

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.*

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.

BELT HARRIS PECHACEK, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas
January 12, 2012

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 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, 2011. 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 requirements referred to above that are applicable to each of its major federal programs for the year ended August 31, 2011.

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Internal Control Over Compliance

The 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 in order to determine our 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 would not necessarily identify all deficiencies in internal control that might be 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.

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.

BELT HARRIS PECHACEK, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas
January 12, 2012

WACO
INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended August 31, 2011

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of 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:

Child Nutrition Cluster	10.553, 10.555, and 10.559
Universal E Rate	32.000
Title I, Part A Cluster	84.010 and 84.389
Special Education (IDEA) Cluster	84.027, 84.173, 84.391, and 84.392
ESEA Title VI	84.287
ESEA Title II	84.367
ARRA, Title XIV, SFSF	84.394

8. The threshold for distinguishing Type A and B programs was $1,049,097.

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 OF PRIOR AUDIT FINDINGS
For the Year Ended August 31, 2011

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, 2011

Federal Grantor / Pass-Through Grantor / Program or Cluster Title	Federal CFDA Number	Pass-Through Project Number	(A) Federal Expenditures, Indirect Costs, and Refunds
U.S. Department of Agriculture			
Passed Through the State Department of Agriculture			
National School Breakfast Program *2	10.553	71400401	$ 1,894,837
National School Lunch Program *2	10.555	71300401	5,766,193
Food Distribution	10.550	161026A	532,332
Summer Feeding Program *2	10.559	7561013	558,863
Fresh Fruits and Vegetables Program	10.582		77,173
Total Passed Through the State Department of Agriculture			8,829,398
Total U.S. Department of Agriculture			8,829,398
U.S. Department of Defense			
Direct programs:			
Junior Reserve Officer Training Corp	12.000		93,016
Payments in Lieu of Taxes-Flood Control	12.112		842
Total Direct Programs Through the U.S. Department of Defense			93,858
Total U.S. Department of Defense			93,858
U.S. Department of Labor			
Passed Through the Texas Workforce Commission			
WIA Dislocated Workers - National Reserve Demo	17.280	1311ATP000	14,038
Total U.S. Department of Labor			14,038
Federal Communications Commission			
Direct Programs:			
Universal E-Rate	32.000		2,582,509
Total Direct Programs Through the Federal Communications Commission			2,582,509
Total Federal Communications Commission			2,582,509
U.S. Department of Education			
Passed Through State Department of Education			
ESEA Title I, Part A - Improving Basic Programs *3	84.010A	10610101161914	244,502
ESEA Title I, Part A - Improving Basic Programs *3	84.010A	11610101161914	7,449,255
ESEA Title I, Part A - Improving Basic Programs *3	84.010A	12610101161914	224,876
ESEA Title I, Part A - School Improvement *3	84.010A	11610104161914002	169,801
ESEA Title I, Part A - School Improvement *3	84.010A	11610104161914043	103,917
ESEA Title I, Part A - School Improvement *3	84.010A	10610104161914049	324
ESEA Title I, Part A - School Improvement *3	84.010A	11610104161914049	46,662
Total CFDA Number 84.010A			8,239,337
IDEA, Part B - Formula *1	84.027A	106600011619146600	5,307
IDEA, Part B - Formula *1	84.027A	116600011619146600	2,294,649
IDEA, Part B - Formula *1	84.027A	126600011619146600	120,577
SSA - IDEA, Part B - Discretionary (Deaf) *1	84.027A	116600021619146673	19,540
SSA - IDEA, Part B - Formula Deaf *1	84.027A	116600011619146601	25,989
Total CFDA Number 84.027A			2,466,062
Career and Technical - Basic Grant	84.048A	12420006161914	74,006
Career and Technical - Basic Grant	84.048A	11420006161914	264,303
Total CFDA Number 84.048A			338,309
IDEA, Part B Preschool *1	84.173A	116610011619146610	45,453
IDEA, Part B Preschool *1	84.173A	126610011619146610	3,077
SSA - IDEA, Part B - Preschool Deaf *1	84.173A	116610011619146611	2,517
Total CFDA Number 84.173A			51,047

Waco Independent School District

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2011

Federal Grantor / Pass-Through Grantor / Program or Cluster Title	Federal CFDA Number	Pass-Through Project Number	(A) Federal Expenditures, Indirect Costs, and Refunds
ESEA Title X, Part C McKinney-Vento Homeless Education	84.196A	MVP2-002	6,231
Title I, Part B, Even Start Family Literacy	84.213C	116120017110408	170,295
ESEA Title VI, Part B - 21st Century Community	84.287C	106950127110025	1,143,749
ESEA Title VI, Part B - 21st Century Community	84.287C	116950127110024	27,642
Total CFDA Number 84.287C			1,171,391
ESEA Title II, Part D *4	84.318X	10630001161914	2,769
Vision 2020 (through Region 12) *4	84.318X	106300027110010	15,373
Total CFDA Number 84.318X			18,142
ESEA Title III, Part A - English Language Acquisition	84.365A	10671001161914	400
ESEA Title III, Part A - English Language Acquisition	84.365A	11671001161914	258,673
ESEA Title III, Part A - English Language Acquisition	84.365A	12671001161914	1,525
Total CFDA Number 84.365A			260,598
ESEA Title II, Part A - Teacher/Principal Training	84.367A	10694501161914	-
ESEA Title II, Part A - Teacher/Principal Training	84.367A	11694501161914	1,014,350
ESEA Title II, Part A - Teacher/Principal Training	84.367A	12694501161914	35,421
Total CFDA Number 84.367A			1,049,771
Summer School LEP	84.369A	69551102	28,465
ESEA Title II, Part D, Education Technology - ARRA *4	84.386A	10553001161914	8,543
ESEA Title II, Part D - ARRA *4	84.386A	105530027110032	201,420
Total CFDA Number 84.386A			209,963
ESEA Title X, Part C - ARRA Education for Homeless	84.387	A09-043	133,524
ESEA Title I, Part A - ARRA - Improving Basic Programs *3	84.389A	10551001161914	1,476,404
ESEA Title I, Part A - ARRA - School Improvement *3	84.389A	10551004161914002	152,393
ESEA Title I, Part A - ARRA - School Improvement *3	84.389A	11551004161914003	136,250
ESEA Title I, Part A - ARRA - School Improvement *3	84.389A	11551004161914049	22,915
Total CFDA Number 84.389A			1,787,962
IDEA, Part B, Formula - ARRA *1	84.391A	10554001161914	2,199,533
IDEA, Part B, Preschool - ARRA *1	84.392A	10555001161914	36,019
Title XIV, Stabilization - ARRA	84.394A	10557001161914	207,088
Title XIV, Stabilization - ARRA	84.394A	11557001161914	4,212,544
Total CFDA Number 84.394A			4,419,632
Total U.S. Department of Education			22,557,816
U.S. Department of Health and Human Services			
Passed Through State Health and Human Services Commission			
Community Youth Development	93.556	23794861	20,314
Medical Assistance Program - SHARS	93.778		811,896
Medical Assistance Program - MAC	93.778		31,619
Total CFDA Number 93.778			843,515
Total U.S. Department of Health and Human Services			863,829
Total Expenditures of Federal Awards			34,969,913

**1 Clustered Programs under OMB Circular A-133*
**2 Clustered Programs under OMB Circular A-133*
**3 Clustered Programs under OMB Circular A-133*
**4 Clustered Programs under OMB Circular A-133*

See notes to Schedule of Expenditure of Federal Awards

Waco Independent School District
Notes to the Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2011

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, 2011

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 Rinancial 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.	$822,965