

Waco Independent School District

Annual Financial Reports

For the Year Ended August 31, 2010

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Waco Independent School District
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Introductory Section

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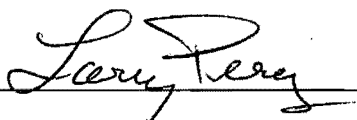
Certificate of Board

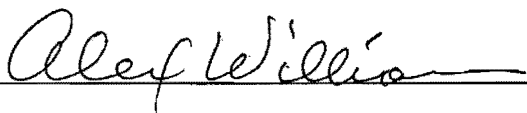
Waco Independent School District

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, 2010 at a meeting of the Board of Trustees of such independent school district on the 20th day of January 2011.


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, 2010, 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, 2010, 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 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.

Providing Governmental & Nonprofit Audits Sealed with Excellence

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Governmental
Audit Quality Center

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 7, 2011

Management's Discussion and Analysis

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Waco Independent School District
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended August 31, 2010

As management of the Waco Independent School District (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the Waco Independent School District for the fiscal year ended August 31, 2010. 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, 2010:

- ♦ On a government-wide basis, the District's total assets exceeded its liabilities by \$56,567,763. This amount represents the District's net assets of which \$23,565,114 is invested in capital assets net of related debt and \$1,829,866 is restricted for debt service. The remaining \$31,172,783 is unrestricted and may be used to meet the District's ongoing obligations.
- ♦ The District's total net assets increased by \$9,718,817 over the prior year however, unrestricted net assets increased only \$4,074,587.
- ♦ As of August 31, 2010 the Waco Independent School District's governmental funds reported combined ending fund balances of \$111,761,875, a decrease of \$68,403,355 compared with the prior year. Of the combined fund balances, \$27,072,569 or 24.2% is unreserved, undesignated and available for the discrete purposes for which these funds are collected.
- ♦ The District's general fund had an ending fund balance of \$29,036,793 at August 31, 2010, of which \$27,072,569 was unreserved and undesignated. The unreserved and undesignated amount represents 24.6% of its annual operating expenditures. Although, the total fund balance increased by \$2,827,859 over the prior year, the unreserved and undesignated fund balance increased by only \$2,185,647, reflecting increases in reserves for inventories and encumbrances as well as increases in funds designated for special projects.
- ♦ The ending fund balance for the National School Breakfast and Lunch Programs was \$888,695, an increase of \$431,579 over the prior year. This amount includes an increase of \$13,260 in reserves for inventories.
- ♦ The Waco Independent School District's total debt decreased by \$6,239,518. The District issued Unlimited Tax Refunding bonds to refund a portion of the remaining bonds issued in 2001.
- ♦ The fund balance reserved for debt service decreased by \$330,608 to \$2,855,367 at August 31, 2010.

Waco Independent School District
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended August 31, 2010

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis serves as an overview of the District's financial statements. The basic financial statements consist of three components: the government-wide financial statements, the fund financial statements, and the related notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements, including schedules required by the District's oversight agency, the Texas Education Agency (TEA). These components are illustrated below.

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

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

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

Waco Independent School District
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended August 31, 2010

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. The District has no business-type activities for which it is financially accountable but does include a blended component unit within the reporting entity. Fiduciary funds are not included in the government-wide statements.

Fund Financial Statements

The fund financial statements report the District's 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.

The District's 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 the District's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Waco Independent School District
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended August 31, 2010

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 the District 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 began utilizing an enterprise fund during the current fiscal year to report start-up activities for the new childcare center which began operation for the 2010-11 school year.
 - *Internal services funds* are an accounting device used to accumulate and allocate costs internally among the District's various fund 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 District's 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 District's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. The District's fiduciary funds include scholarship funds and campus activity funds.

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

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

Waco Independent School District
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended August 31, 2010

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The District's overall financial position and operations for the fiscal years ended August 31, 2010 and 2009 are summarized as follows, based on the information included in the government-wide financial statements.

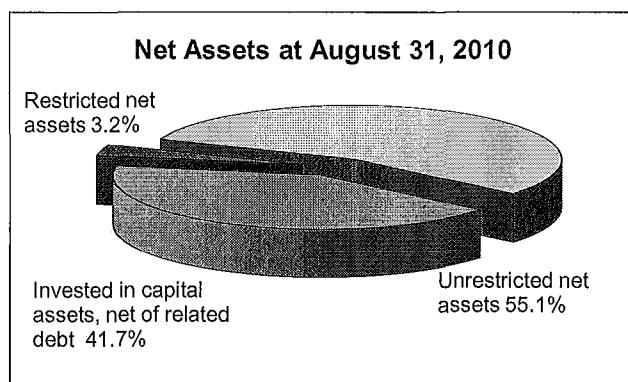
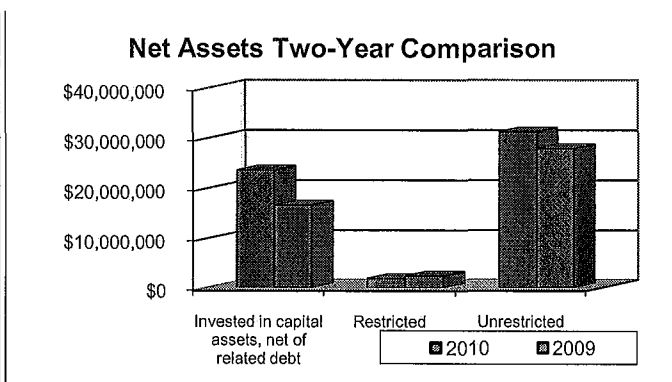
Waco Independent School District's Schedule of Net Assets

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Current and other assets	\$ 132,456,137	196,872,509	(58,015)	-	132,398,122	196,872,509
Capital assets	157,495,498	85,865,102	-	-	157,495,498	85,865,102
Total assets	289,951,635	282,737,611	(58,015)	-	289,893,620	282,737,611
Current liabilities	24,955,259	22,173,657	25,183	-	24,980,442	22,173,657
Long-term liabilities	208,345,415	213,715,008	-	-	208,345,415	213,715,008
Total liabilities	233,300,674	235,888,665	25,183	-	233,325,857	235,888,665
Net assets:						
Invested in capital assets, net of related debt	23,565,114	16,595,278	-	-	23,565,114	16,595,278
Restricted	1,829,866	2,345,472	-	-	1,829,866	2,345,472
Unrestricted	31,255,981	27,908,196	(83,198)	-	31,172,783	27,908,196
Total net assets	\$ 56,650,961	46,848,946	(83,198)	-	56,567,763	46,848,946

The District's total assets exceed total liabilities by \$56,567,763 at August 31, 2010, increasing \$9,718,817 over the prior year. At the end of the fiscal year, 55.1% of the District's 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 reserves for debt service, shown as reserved or designated in the fund statements.

Another 41.7% 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 \$6,969,836. Capital assets increased \$71,630,396, net of related depreciation of \$5,032,505, while related debt decreased \$6,239,518. Total debt is offset by unexpended debt proceeds in the amount of \$78,981,020.

The remaining 3.2% of the net assets represents resources subject to external restrictions on how they may be used. These restricted net assets represent amounts legally reserved under bond covenants for debt service.



Waco Independent School District
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended August 31, 2010

Changes in Net Assets

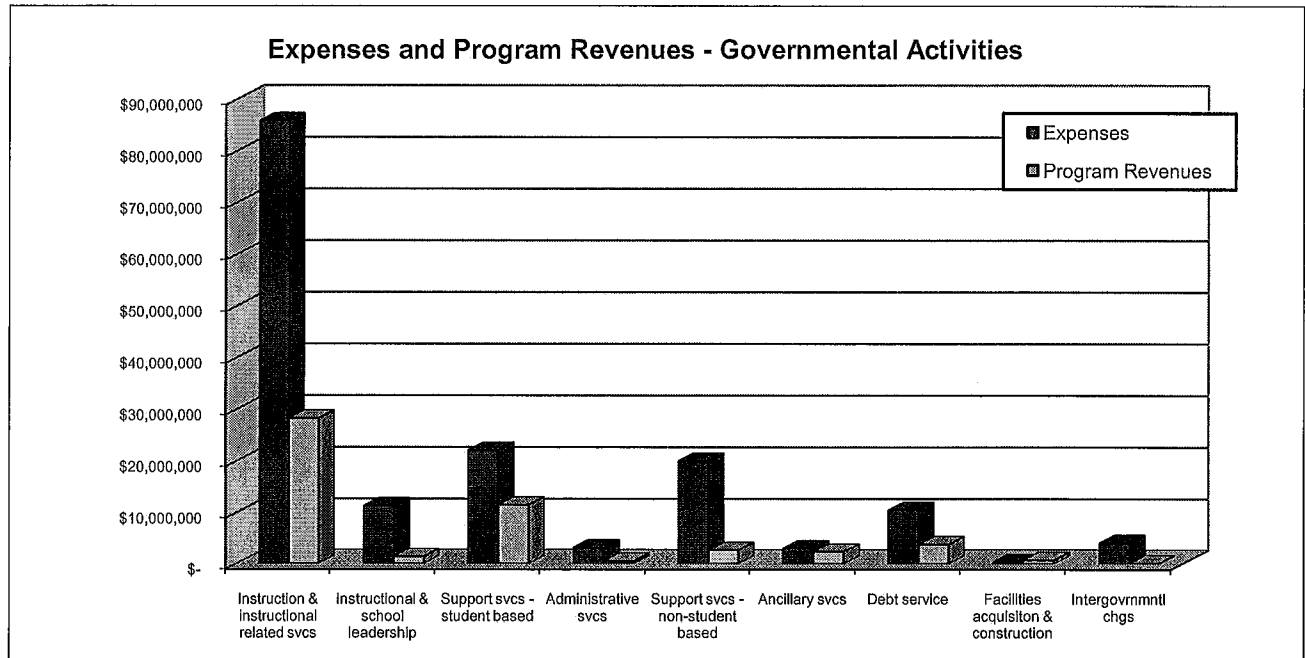
The following table provides a summary comparing the District's operations for the years ended August 31, 2010 and 2009. For the year ended August 31, 2010 governmental activities increased the District's net assets by \$9,801,015. The net assets for business-type activities decreased by \$83,198.

Waco Independent School District's Changes in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Revenues:						
Program Revenues:						
Charges for services	\$ 3,709,853	3,359,835	470	-	3,710,323	3,359,835
Operating grants and contributions	47,316,179	34,782,389	2,000	-	47,318,179	34,782,389
General Revenues:						
Property taxes	52,048,199	49,263,271	-	-	52,048,199	49,263,271
State aid -- formula grants	63,257,681	63,075,511	-	-	63,257,681	63,075,511
Investment earnings	1,671,840	4,181,333	-	-	1,671,840	4,181,333
Miscellaneous revenue	1,889,532	645,601	-	-	1,889,532	645,601
Total revenues	<u>169,893,284</u>	<u>155,307,940</u>	<u>2,470</u>	<u>-</u>	<u>169,895,754</u>	<u>155,307,940</u>
Expenses:						
Instruction	78,925,567	74,048,981	-	-	78,925,567	74,048,981
Instructional resources and media services	1,249,717	1,281,988	-	-	1,249,717	1,281,988
Curriculum development and instructional staff development	5,603,503	5,214,559	-	-	5,603,503	5,214,559
Instructional leadership	2,509,080	2,460,887	-	-	2,509,080	2,460,887
School leadership	8,749,357	8,430,436	-	-	8,749,357	8,430,436
Guidance, counseling and evaluation services	4,345,391	4,199,899	-	-	4,345,391	4,199,899
Social work services	895,460	870,106	-	-	895,460	870,106
Health services	1,189,010	1,091,411	-	-	1,189,010	1,091,411
Student transportation	2,884,105	2,669,696	-	-	2,884,105	2,669,696
Food services	8,809,409	8,330,123	-	-	8,809,409	8,330,123
Extracurricular activities	3,898,871	3,785,466	-	-	3,898,871	3,785,466
General administration	3,167,326	3,397,332	-	-	3,167,326	3,397,332
Plant maintenance and operations	14,991,829	14,330,895	-	-	14,991,829	14,330,895
Security and monitoring services	1,887,790	1,737,200	-	-	1,887,790	1,737,200
Data processing services	3,077,680	2,216,588	-	-	3,077,680	2,216,588
Community services	3,008,672	2,751,001	85,668	-	3,094,340	2,751,001
Debt service - interest on long-term debt	10,458,490	7,463,119	-	-	10,458,490	7,463,119
Debt service - bond issuance costs and fees	6,667	4,422	-	-	6,667	4,422
Facilities Acquisition and construction	274,824	227,997	-	-	274,824	227,997
Payments to fiscal agents/member districts of shared services arrangements	272,123	199,932	-	-	272,123	199,932
Education program	677,568	602,096	-	-	677,568	602,096
Payments to tax increment fund	2,532,598	2,087,472	-	-	2,532,598	2,087,472
Other intergovernmental charges	640,288	625,138	-	-	640,288	625,138
Total expenses	<u>160,055,325</u>	<u>148,026,744</u>	<u>85,668</u>	<u>-</u>	<u>160,140,993</u>	<u>148,026,744</u>
Increase or (decrease) in net assets before transfers, special and extraordinary items	9,837,959	7,281,196	(83,198)	-	9,754,761	7,281,196
Special items -- gain on sale of equipment	59,056	15,662	-	-	59,056	15,662
Increase or (decrease) in net assets	<u>9,897,015</u>	<u>7,296,858</u>	<u>(83,198)</u>	<u>-</u>	<u>9,813,817</u>	<u>7,296,858</u>
Net assets, September 1	46,848,946	39,552,088	-	-	46,848,946	39,552,088
Prior Period Adjustment	(95,000)	-	-	-	(95,000)	-
Net assets, August 31	<u>\$ 56,650,961</u>	<u>46,848,946</u>	<u>(83,198)</u>	<u>-</u>	<u>56,567,763</u>	<u>46,848,946</u>

Waco Independent School District
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended August 31, 2010

The cost of all governmental activities totaled \$160,055,325 increasing \$12,028,581 over the prior year. Program revenues of \$3,709,853, in the form of charges for services, and \$47,316,179, 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 District's primary source of revenue comes from the State's formula funding through the Foundation School Program. State formula grants contributed \$63,257,681, 37.2%, of the District's \$169,893,284 total revenue. Funding from State formula grants increased \$182,170 from last year but current year 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. The District's property values continued to increase through 2009 but the average daily attendance for the 2009-10 school year remained virtually unchanged with a very slight decrease of 1.6 students.

Local property tax revenue contributed an additional \$52,048,199 or 30.6% of the total revenue. Property taxes for general purposes increased \$2,037,770 due to valuation increases. Property taxes levied for debt service increased \$747,158 due to valuation increases and to an increase in the tax rate from \$0.3191 per \$100 of valuation to \$0.3263 per \$100 of valuation. This increase was necessitated by the increase in debt service for issued bonds. The rate for maintenance and operations remained unchanged at \$1.04005.

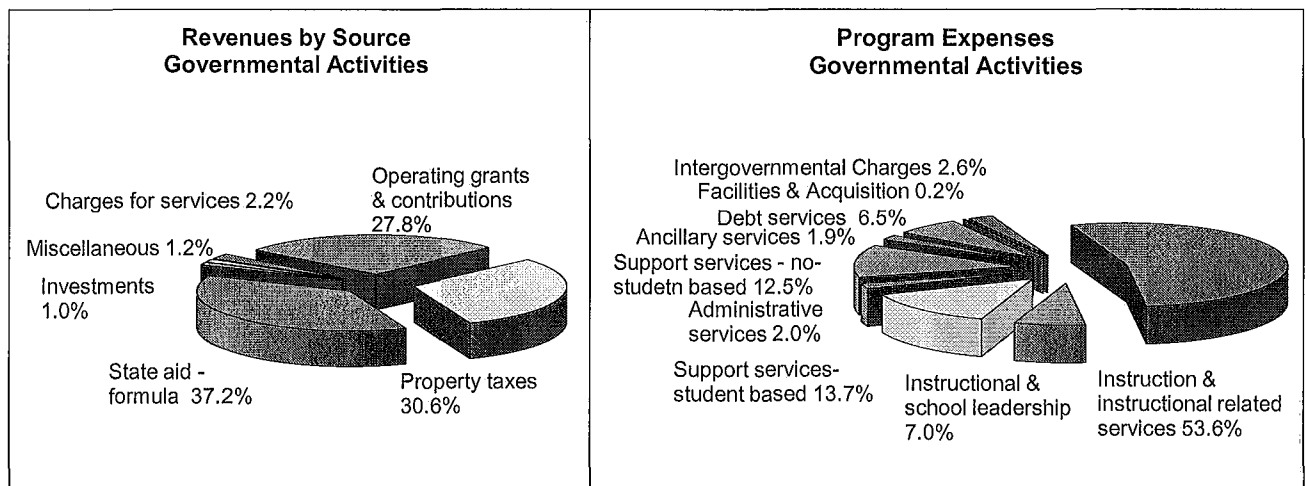
With the authorization of federal funding under the American Recovery and Reinvestment Act of 2009 (ARRA), federal funding increased by \$10,806,358. The District received and expended \$478,952 for the replacement of food service equipment, \$126,104 for the education of the homeless, \$2,435,664 in Title I funding and \$777,728 in IDEA funding. Additional federal funding also included \$4,541,113 in funding through ARRA Stabilization funds which was utilized by the State of Texas to fully fund obligations under the Foundation School Program and increased reimbursements of \$592,434 under Medical Assistance programs, MAC and SHARS.

Waco Independent School District
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended August 31, 2010

Expenses for governmental activities increased \$12,028,581 over the prior year. Of this increase, \$2,995,371 is attributable to the increase in interest on long-term debt resulting from the issuance of bonds in late 2008-09. Another \$1,506,497 was expended from federal E-rate funds, an increase of \$1,041,603 from the prior year. Additionally, \$3,818,347 was expended in federal funding through the American Recovery and Reinvestment Act of 2009 (this amount excludes the \$4,541,113 in federal Stabilization funds). Increased expenditures included \$1,752,978 in repairs and equipment replacement resulting from fire damage at A.J. Moore Academy. These costs were covered through insurance recoveries.

In August, 2009, the Board of Trustees approved a compensation package with an estimated cost to the District of \$2.4 million, providing an average increase of 3.3% to teachers, nurses, librarians and counselors, as well as an average increase of 3% for all other employee groups. The compensation increase, as well as other inflationary increases, was partially offset by savings estimated at \$400,000, resulting from the closing of one of the District's elementary schools.

The following charts show the District's revenues for its 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 Waco Independent School 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 was not fully operational until January 2011.

The childcare center will be accounted for in an enterprise fund. Revenue through August 31, 2010 included \$470 in fees and a \$2,000 grant for start-up supplies. Expenses of \$85,668 included the program coordinator's salary, benefits and some start-up supplies and equipment for the program.

Waco Independent School District
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended August 31, 2010

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Governmental Funds

At August 31, 2010, the Waco Independent School District's governmental funds reported combined ending fund balances of \$111,761,875, a decrease of \$68,403,355 from the prior year. The decrease is primarily due to the expending of bond funds for capital projects. Reserves for encumbered and unobligated capital projects decreased by \$71,332,185.

The general fund supports most of the District's educational program and support operations. As of August 31, 2010, the fund balance for the general fund totaled \$29,036,793, increasing \$2,827,859 over the year ended August 31, 2009. The unreserved and undesignated portion of the fund balance increased \$2,185,647 to \$27,072,569 while reserved and designated fund balances increased \$642,212.

As a measure of the general fund's liquidity, it may be useful to compare both the unreserved and undesignated fund balance and the total fund balance to the total fund expenditures. The first represents 24.6% of total fund expenditures, while the total fund balance represents 26.4%.

The fund balance of the National School Breakfast and Lunch Program once again showed improvement. Revenues exceeded expenditures by \$431,579. Revenues and expenditures included \$478,952 in federal ARRA funding to replace food service equipment. The fund balance at year's end totaled \$888,695 with \$200,488 reserved for inventories on hand.

Reserves in the debt service fund decreased \$330,608. Bonded debt issued in August, 2009 was structured to assist in covering interest payments without increasing the tax rate for debt above amounts stated in information provided for the bond referendum. A portion of the Series 2001 bonds was refunded obtaining a present value savings of just under 3%. With the August 2010 principal payments, the remaining 2001 bonds have been retired. The ending debt service reserve represents 17.3% 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 center, which opened to regular operations in January 2011, received \$470 in user charges and another \$2,000 in a non-operating grant. Start-up expenses, including payroll costs for the program coordinator, totaled \$85,668. The ending net assets reflect a deficit of \$83,198. The center is expected to be self-supporting in three to five years.

The District utilizes an internal service fund 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 \$454,402. Fees paid to the third party administrator totaled \$101,893. Claims incurred totaled \$394,585 but were netted with an increase in the estimate of unpaid incurred claims of \$29,808. Actual claims experience increased slightly, from \$390,765 in 2008-09. Projected unpaid incurred claims of \$829,465 were accrued at August 31, 2010. Ending net assets for the fund totaled \$304,971 or 36.8% of these accrued claims.

GENERAL FUND BUDGETARY HIGHLIGHTS

Original budgeted appropriations in the general fund, as adopted by the District's Board of Trustees, totaled \$113,511,956. Revenue was estimated to equal appropriations. The beginning fund balance, at budget adoption was estimated at \$25,025,428. The actual beginning fund balance totaled \$26,208,934. The difference between estimated and actual was due to the carry forward of \$500,027 in outstanding encumbrances as well as \$586,236 in unexpended designated funds.

In September, federal revenue estimates and related appropriations were amended downward by \$4,728,416 in order to separately account for funds to be received under the American Recovery and Reinvestment Act of 2009. Federal revenue estimates and related project appropriations were later increased to reflect the award of additional E-rate funding in the amount of \$1,091,245.

Waco Independent School District
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended August 31, 2010

During the year, local revenue estimates were increased by \$2,057,745. This increase was primarily due to the budgeting of insurance recoveries in the amount of \$1,752,978 with the remaining increases attributable to increased tax collections for the Tax Increment Reinvestment Zone (TIRZ) and other miscellaneous revenue. Although, the insurance recovery revenue was reclassified to other sources for financial statement purposes, the Texas Education Agency requires that it be budgeted and accounted for as local revenue. Therefore, the estimated revenue is included in local revenue in the final budget.

At year end, realized revenue, including insurance recovery reflected in other sources, exceeded budgeted estimates by \$376,298. This was due primarily to an increase in State revenue from the adjustment to Foundation School Program calculations for amounts received and paid into the TIRZ offset by lower than estimated investment earnings.

General fund appropriations decreased by \$543,290. While the appropriations budget was reduced for the \$4,728,416 in ARRA Stabilization funds, budgeted expenditures were increased by an additional \$4,185,126. Previously designated funds, in the amount of \$606,225 as well as incomplete purchase orders of \$145,337 were rolled forward into the 2009-10 fiscal year. Revenue increases discussed above were offset by corresponding appropriations: \$1,752,918 for insurance recoveries, \$1,089,245 for E-rate projects, \$130,673 in increased tuition and related expenditures for after-school programs, \$27,103 for athletic activities and expenditures related to insurance recoveries, and \$212,375 in payments related to collections for the Tax Increment Fund. Additionally, \$201,000 from the sale of school buses was re-appropriated for future bus purchases.

Final appropriations were under expended by \$3,123,691. Of the under expenditure, \$1,102,136 occurred in function 11, instruction: \$347,310 of this amount was in salary savings, \$52,686 was not expended in contracted service, \$47,438 in miscellaneous operating costs, and \$5,533 in capital outlay. The remaining amount of \$649,168 was in appropriations for supplies and materials.

Other significant under expenditures occurred in functions 34, student transportation services, 51, plant maintenance and operations, 53, data processing service and 81, facilities acquisition and construction. \$560,898 remained unexpended in student transportation services at year end. Most of these excess funds, \$537,650, are attributable to the cumulative sale of buses and are designated for future bus purchases.

Budgeted appropriations in plant maintenance and operations exceeded expenditures by \$271,181. \$162,415 was in funds designated by the Board of Trustees for maintenance projects, primarily accommodations for persons with disabilities. \$31,368 of the \$180,453 unexpended in data processing services was for incomplete E-rate projects and was re-appropriated in 2010-11. The \$118,515 in facilities acquisition and construction remained from insurance recoveries for incomplete repairs and furniture replacement damaged by the fire at A.J. Moore.

Results of operations increased the fund balance by \$2,827,859. Of this excess, \$865,065 in designated or encumbered funds was re-appropriated in 2010-11. Additionally, \$825,340 of State program revenues were generated through formula corrections from prior years and are, therefore, non-recurring.

CAPITAL ASSET AND DEBT ADMINISTRATION

The District's investment in capital assets for its governmental activities as of August 31, 2010, totaled \$157,495,498, net of accumulated depreciation of \$100,923,791. Capital assets, net of accumulated depreciation increased \$71,630,396 from the August 31, 2009 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.

Waco Independent School District
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended August 31, 2010

The following chart shows the changes in capital assets by category of asset.

Capital Asset Summary <i>(net of accumulated depreciation)</i>		
	Governmental Activities	
	August 31, 2010	August 31, 2009
Land	\$ 10,153,246	\$ 9,266,355
Buildings and improvements	66,167,354	50,019,410
Furniture and equipment	10,501,335	7,325,193
Construction in progress	70,673,563	19,254,144
Total capital assets, net of accumulated depreciation	<u>\$ 157,495,498</u>	<u>\$ 85,865,102</u>

Major capital asset acquisitions for the current fiscal year included:

- ♦ Acquisition of land totaling \$886,891;
- ♦ Construction-in-progress of \$51,419,419 for bond projects authorized in the May 2008 bond election, primarily for the new University High schools;
- ♦ \$16,147,944 in buildings and improvements, including the completed construction of the new J.H. Hines Elementary School; and
- ♦ \$3,176,142 in capitalized furniture and equipment, including furnishing and equipping the new elementary school, as well as the new additions and renovations at Waco High School and A.J. Moore Academy, and new playground installations at Brook Avenue, Kendrick, Mountainview, South Waco and West Elementary Schools.

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

Debt Administration

At August 31, 2010, the District had debt obligations totaling \$213,980,490. \$6,615,000 in bonds was retired during the 2009-10 fiscal year through scheduled debt service payments. Another \$7,575,000 was refunded through the issuance of Unlimited School Refunding bonds. Bond payments due within one year total \$5,635,075.

Debt Summary		
	Governmental Activities	
	August 31, 2010	August 31, 2009
General obligation bonds	\$ 216,169,993	\$ 209,649,993
Unamortized bond issuance premium	5,115,273	5,399,045
Unamortized bond refunding loss	(1,500,746)	(1,823,211)
Accumulated accretion	435,488	754,663
Total long-term debt	<u>\$ 220,220,008</u>	<u>\$ 213,980,490</u>

With the issuance of refunding bonds, Standard and Poor's affirmed the District's rating of 'AA-' and Moody's affirmed its previous rating of 'A1'. Additional information about the District's long-term debt is presented in Note IV-G in the accompanying notes to the financial statements.

Waco Independent School District
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended August 31, 2010

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

In funding the 2010-11 budget, the Board of Trustees was required, because of a clarification of law, to lower the maintenance and operations rate from \$1.04005 to \$1.04000. The District also saw a slight decline in property values of 1.9% resulting in a decrease in estimated property tax revenue of \$552,420. State formula funding was computed on an average daily attendance of 13,829. This represents a 27 student decrease from 2009-10. Projections, after the first two six week periods, appear to be slightly higher than budgeted indicating a flat enrollment and average daily attendance for three consecutive years.

With the possibility of additional federal funding, the Board of Trustees approved a compensation package for employees totaling \$1.6 million. Increases for teachers and other employees tied to the teacher pay schedule average 2.1%, a similar increase was given to both auxiliary and paraprofessional staff with a 1.6% increase given to administrative and other professional staff not tied to the teacher schedule.

However, Texas' application for the federal jobs funds was denied and the District cut funded additional requests for equipment and maintenance projects and reduced health benefits to avoid anticipated increases in health insurance premiums in order to offset revenue losses. Due to funding constraints, only unavoidable increases such as payments into the tax increment fund, contractual obligations and utility increases were funded. Since the beginning of the school year, a number of support positions have not been filled further improving current financial position.

The District's tax rate for interest and sinking was decreased from \$0.326300 to \$0.32475 per \$100 of valuation. This decrease is in line with information provided taxpayers for the 2008 bond election. Increased debt service payments are partially offset by increases in State funding through both the existing debt allotment and instructional facilities allotments. Bonds issued in 2009 have been awarded funding through the instructional facilities allotment and will not, therefore, negatively impact funds available under the existing debt allotment cap. State funding for debt service increased \$1,872,817 over that received in 2008-09. With the availability of bond funds, none of the unreserved and undesignated fund balance is expected to be utilized for a major improvements or repairs during the 2010-11 fiscal year.

Emerging from the recent recession, the State of Texas has fared better than most of the nation. The unemployment rate, currently 8.2 percent, has stayed below the national rate, currently 9.8 percent. Texas also saw a 1.9 percent annual growth in jobs, particularly in the metroplexes, compared to a 0.6 percent growth nationwide. And, although home sales declined 23.6 percent and foreclosures increased 10.5 percent, the State avoided severe declines in property values. As mentioned previously, property values in the Waco Independent School District declined by only 1.9 percent for the 2010 tax year. At the same time, McLennan County saw an increase in population of 2.5 percent with an additional 532 jobs created. The local unemployment rate in November 2010 was 7.3 percent, 0.9 percent less than the State average.

For the 2012-13 biennium, the State Comptroller has estimated revenue collections from all sources and for all purposes will total \$177.8 billion. However, the projected ending revenue-related balance for the 2010-11 biennium is a negative \$4.3 billion. State revenues, particularly sales tax collections, have been severely impacted by the contracting state and national economies. For the 2009-10 and 2010-11 school years, the State utilized federal stimulus funds to fully fund the Foundation School Program. The loss of this revenue source, coupled with the slow rebounding of both the State and national economy, will result in an estimated decrease of 2.9 percent in funds available for 2012-13.

Many non-educational State agencies saw budget reductions of as much as five percent for 2010-11 and some have been faced with additional mid-year cuts. It is expected that school districts and higher education will be subjected to similar reductions in the coming legislative session. While Texas is expected to benefit from a growing population and an uptick in business activity, the population growth puts further stress on school funding. Based on early estimates, the Waco Independent School District could suffer general fund revenue losses between \$4.5 and \$6 million. District administration has begun to slow hiring of vacant positions and is developing proposals for budget reductions. On a positive note, average daily attendance, after declining for a number of years has remained stable for the past three stemming further reductions resulting from lower enrollment.

Waco Independent School District
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended August 31, 2010

Budget cuts loom over the approaching budget development cycle and will pose significant challenges for the Waco Independent School District. Reduced funding could result in larger class sizes and negatively impact existing programs. All current budgeted expenditures must be evaluated in relation to how well they support the District's educational strategies. Based on outcomes from the 82nd legislative session, the Board of Trustees and administration may be forced to make some very tough decisions.

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.

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Basic Financial Statements

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Waco Independent School District

Statement of Net Assets

August 31, 2010

Data Control Codes		1	2	3
		Primary Government		
		Governmental Activities	Business Type Activities	Governmental Activities
ASSETS				
1110	Cash and cash equivalents	\$ 113,851,241	-	113,851,241
1120	Current investments	6,000,000	-	6,000,000
1225	Property taxes receivable, net of allowance for uncollectibles of \$1,946,636	1,471,080	-	1,471,080
1240	Due from other governments	8,629,035	-	8,629,035
1250	Accrued interest receivable	713,127	-	713,127
1260	Internal balances	58,015	(58,015)	-
1290	Other receivables	926,123	-	926,123
1310	Inventories	469,948	-	469,948
1410	Deferred expenses	23,145	-	23,145
1420	Capitalized bond and other debt issuance costs	314,423	-	314,423
	Capital assets, net of accumulated depreciation:			
1510	Land	10,153,246	-	10,153,246
1520	Buildings and improvements	66,167,354	-	66,167,354
1530	Furniture and equipment	10,501,335	-	10,501,335
1580	Construction in progress	70,673,563	-	70,673,563
	Total assets	289,951,635	(58,015)	289,893,620
LIABILITIES				
2110	Accounts payable	14,888,340	25,183	14,913,523
2140	Accrued interest payable	549,187	-	549,187
2150	Payroll deductions and withholdings	680,637	-	680,637
2160	Accrued wages	1,677,412	-	1,677,412
2170	Due to fiduciary funds	1,897	-	1,897
2180	Due to other governments	24,261	-	24,261
2200	Accrued expenses	829,465	-	829,465
2300	Unearned revenue	668,985	-	668,985
	Noncurrent liabilities:			
2510	Due within one year	5,635,075	-	5,635,075
2510	Due after one year	208,345,415	-	208,345,415
	Total liabilities	233,300,674	25,183	233,325,857
NET ASSETS				
3200	Invested in capital assets, net of related debt	23,565,114	-	23,565,114
	Restricted for:			
3800	Debt service	1,829,866	-	1,829,866
3900	Unrestricted (deficit)	31,255,981	(83,198)	31,172,783
	Total net assets	\$ 56,650,961	(83,198)	56,567,763

Waco Independent School District

Statement of Activities

For the Year Ended August 31, 2010

Data Control Codes		Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		1	3	4	6	7	8
		Primary Government					
		Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business Type Activities	Total
Primary Government:							
	Governmental Activities:						
11	Instruction	\$ 78,925,567	1,096,977	22,504,742	(55,323,848)	-	(55,323,848)
12	Instructional resource and media services	1,249,717	-	86,880	(1,162,837)	-	(1,162,837)
13	Curriculum and instructional staff development	5,603,503	-	4,521,401	(1,082,102)	-	(1,082,102)
21	Instructional leadership	2,509,080	-	521,744	(1,987,336)	-	(1,987,336)
23	School leadership	8,749,357	158,721	666,658	(7,923,978)	-	(7,923,978)
31	Guidance, counseling and evaluation services	4,345,391	52,907	950,075	(3,342,409)	-	(3,342,409)
32	Social work services	895,460	2,306	123,592	(769,562)	-	(769,562)
33	Health services	1,189,010	-	103,617	(1,085,393)	-	(1,085,393)
34	Student transportation	2,884,105	-	-	(2,884,105)	-	(2,884,105)
35	Food services	8,809,409	776,992	8,729,934	697,517	-	697,517
36	Cocurricular/extracurricular activities	3,898,871	652,022	77,857	(3,168,992)	-	(3,168,992)
41	General administration	3,167,326	232,480	212,439	(2,722,407)	-	(2,722,407)
51	Plant maintenance and operations	14,991,829	128,366	749,171	(14,114,292)	-	(14,114,292)
52	Security and monitoring services	1,887,790	26,454	96,511	(1,764,825)	-	(1,764,825)
53	Data processing services	3,077,680	-	1,655,763	(1,421,917)	-	(1,421,917)
61	Community services	3,008,672	529,721	1,814,304	(664,647)	-	(664,647)
72	Interest on long-term debt	10,458,490	-	3,832,295	(6,626,195)	-	(6,626,195)
73	Bond issuance cost and fees	6,667	-	-	(6,667)	-	(6,667)
81	Facilities Acquisition and construction	274,824	-	659,935	385,111	-	385,111
93	Payments to fiscal agents/member districts of shared services arrangements	272,123	52,907	9,261	(209,955)	-	(209,955)
95	Payments related to Juvenile Justice Alternative Education Program	677,568	-	-	(677,568)	-	(677,568)
97	Payments to tax increment zones	2,532,598	-	-	(2,532,598)	-	(2,532,598)
99	Other intergovernmental charges	640,288	-	-	(640,288)	-	(640,288)
	(TG) Total governmental activities	160,055,325	3,709,853	47,316,179	(109,029,293)	-	(109,029,293)
	Business-type Activities:						
01	Early Childhood Development Center	85,668	470	2,000	-	(83,198)	(83,198)
		85,668	470	2,000	-	(83,198)	(83,198)
		\$ 160,140,993	3,710,323	47,318,179	(109,029,293)	(83,198)	(109,112,491)
	Data Control Codes						
	General revenues:						
	Taxes:						
MT	Property taxes, levied for general purposes				39,624,761	-	39,624,761
DT	Property taxes, levied for debt service				12,423,438	-	12,423,438
SF	State aid-formula grants				63,257,681	-	63,257,681
IE	Investment earnings				1,671,840	-	1,671,840
MI	Miscellaneous				1,889,532	-	1,889,532
SI	Gain on disposal of land, buildings and equipment				59,056	-	59,056
TG	Total general revenues				118,926,308	-	118,926,308
CN	Change in net assets				9,897,015	(83,198)	9,813,817
NB	Net assets, beginning				46,848,946	-	46,848,946
PA	Prior Period Adjustment				(95,000)	-	(95,000)
NE	Net assets, ending				\$ 56,650,961	(83,198)	56,567,763

Waco Independent School District

Balance Sheet
Governmental Funds

August 31, 2010

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	\$ 25,387,936	288,229	2,180,099	85,868,634	126,343	113,851,241
1120 Investments	2,000,000	-	-	4,000,000	-	6,000,000
1225 Property taxes receivable (net of allowances for uncollectibles)	1,157,155	-	313,925	-	-	1,471,080
1240 Due from other governments	4,349,614	275,360	653,738	-	3,350,323	8,629,035
1250 Accrued interest receivable	2,722	-	-	710,405	-	713,127
1260 Due from other funds	2,775,661	382,639	-	-	571,942	3,730,242
1290 Other receivables	160,134	2,812	-	-	763,177	926,123
1310 Inventories	248,900	221,048	-	-	-	469,948
1410 Deferred expenditures	-	-	-	-	23,145	23,145
Total assets	<u>\$ 36,082,122</u>	<u>1,170,088</u>	<u>3,147,762</u>	<u>90,579,039</u>	<u>4,834,930</u>	<u>135,813,941</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
2110 Accounts payable	\$ 2,779,716	239,166	-	10,930,102	889,980	14,838,964
2150 Payroll deductions and withholdings payable	680,637	-	-	-	-	680,637
2160 Accrued wages payable	1,370,747	21,666	-	-	284,999	1,677,412
2170 Due to other funds	1,185,709	-	-	667,917	3,004,310	4,857,936
2180 Due to other governments	-	-	-	-	24,261	24,261
2300 Deferred revenues	1,028,520	20,561	292,395	-	631,380	1,972,856
Total liabilities	<u>7,045,329</u>	<u>281,393</u>	<u>292,395</u>	<u>11,598,019</u>	<u>4,834,930</u>	<u>24,052,066</u>
Fund balances:						
Reserved for:						
3410 Investments in inventory	248,900	200,488	-	-	-	449,388
3420 Debt service	-	-	2,855,367	-	-	2,855,367
3430 Prepaid items	1,720	-	-	-	-	1,720
3440 Encumbrances	1,013,539	-	-	30,892,655	-	31,906,194
3450 Food service	-	688,207	-	-	-	688,207
3470 Capital acquisition program	-	-	-	48,088,365	-	48,088,365
Unreserved, designated for:						
3530 Capital Expenditures for Equipment	537,650	-	-	-	-	537,650
3590 Maintenance and other projects	162,415	-	-	-	-	162,415
3600 Unreserved, undesignated	27,072,569	-	-	-	-	27,072,569
Total fund balances	<u>29,036,793</u>	<u>888,695</u>	<u>2,855,367</u>	<u>78,981,020</u>	<u>-</u>	<u>111,761,875</u>
Total liabilities and fund balances	<u>\$ 36,082,122</u>	<u>1,170,088</u>	<u>3,147,762</u>	<u>90,579,039</u>	<u>4,834,930</u>	<u>135,813,941</u>

Waco Independent School District

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

August 31, 2010

Data
Control
Codes

3600	Fund balances - total governmental funds (Exhibit C-1)	\$	111,761,875
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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.	304,971
2	Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	157,495,498
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.	(214,529,677)
4	Certain bond issuance costs are not capitalized at the fund level.	314,423
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.	1,303,871

	Net assets of governmental activities (Exhibit A-1)	\$	<hr/> <u>56,650,961</u>
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Waco Independent School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended August 31, 2010

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	\$ 41,225,238	809,633	12,356,690	1,551,751	2,489,793	58,433,105
5800 State program revenues	67,018,895	75,779	3,832,295	-	2,870,522	73,797,491
5900 Federal program revenues	2,311,717	8,452,678	-	-	24,881,665	35,646,060
5020 Total revenues	<u>110,555,850</u>	<u>9,338,090</u>	<u>16,188,985</u>	<u>1,551,751</u>	<u>30,241,980</u>	<u>167,876,656</u>
EXPENDITURES						
Current:						
6011 Instruction	55,837,880	-	-	-	20,503,766	76,341,646
6012 Instructional resources and media services	1,124,203	-	-	-	33,950	1,158,153
6013 Curriculum and instructional staff development	1,109,784	-	-	-	4,488,588	5,598,372
6021 Instructional leadership	2,033,389	-	-	-	462,654	2,496,043
6023 School leadership	8,156,758	-	-	-	521,191	8,677,949
6031 Guidance, counseling and evaluation services	3,465,764	-	-	-	859,338	4,325,102
6032 Social work services	812,500	-	-	-	82,241	894,741
6033 Health services	1,157,203	-	-	-	10,321	1,167,524
6034 Student transportation services	2,600,676	-	-	-	-	2,600,676
6035 Food services	-	8,560,936	-	-	542,360	9,103,296
6036 Cocurricular/extracurricular activities	3,395,712	-	-	-	8,390	3,404,102
6041 General administration	3,130,058	-	-	-	-	3,130,058
6051 Plant maintenance and operations	14,683,257	345,575	-	-	97,947	15,126,779
6052 Security and monitoring services	1,809,588	-	-	-	69,467	1,879,055
6053 Data processing services	3,340,374	-	-	-	3,094	3,343,468
6061 Community services	1,205,129	-	-	-	1,834,615	3,039,744
6093 Payments to fiscal agent/member districts of shared services arrangements	208,000	-	-	-	64,123	272,123
6095 Payments to Juvenile Justice Alternative Education Program	677,568	-	-	-	-	677,568
6097 Payments to tax increment zone	2,006,362	-	526,236	-	-	2,532,598
6099 Other intergovernmental charges	640,288	-	-	-	-	640,288
Debt service:						
6071 Principal	645,000	-	5,970,000	-	-	6,615,000
6072 Interest	318,115	-	10,013,681	-	-	10,331,796
6073 Bond issuance cost and fees	149,900	-	9,676	-	-	159,576
Capital outlay:						
6081 Facilities acquisition and construction	1,337,467	-	-	72,883,936	659,935	74,881,338
6030 Total expenditures	<u>109,844,975</u>	<u>8,906,511</u>	<u>16,519,593</u>	<u>72,883,936</u>	<u>30,241,980</u>	<u>238,396,995</u>
1100 Excess (deficiency) of revenues over (under) expenditures	<u>710,875</u>	<u>431,579</u>	<u>(330,608)</u>	<u>(71,332,185)</u>	<u>-</u>	<u>(70,520,339)</u>
OTHER FINANCING SOURCES (USES)						
7911 Bonds issued	163,006	-	7,411,994	-	-	7,575,000
7912 Sale of real and personal property	201,000	-	-	-	-	201,000
7915 Transfers in	-	-	-	-	-	-
7916 Premium on bonds issued	-	-	656,160	-	-	656,160
7949 Insurance Recovery	1,752,978	-	-	-	-	1,752,978
8949 Other Uses	-	-	(8,068,154)	-	-	(8,068,154)
8911 Transfers out	-	-	-	-	-	-
8949 Other Uses	-	-	-	-	-	-
Total other financing sources (uses)	<u>2,116,984</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,116,984</u>
1200 Net change in fund balances	2,827,859	431,579	(330,608)	(71,332,185)	-	(68,403,355)
0100 Fund balances, beginning	26,208,934	457,116	3,185,975	150,313,205	-	180,165,230
3000 Fund balances, ending	<u>\$ 29,036,793</u>	<u>888,695</u>	<u>2,855,367</u>	<u>78,981,020</u>	<u>-</u>	<u>111,761,875</u>

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, 2010

Net changes in fund balances - total governmental funds (Exhibit C-3) \$ (68,403,355)

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. 71,772,340

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. (141,944)

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. 6,447,450

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. 30,759

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. (71,884)

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. 263,649

Changes in net assets of governmental activities (Exhibit B-1) \$ 9,897,015

Waco Independent School District

Statement of Net Assets
Proprietary Fund

August 31, 2010

	Business-type Activities	Governmental Activities
	Enterprise Fund	Internal Service Fund
ASSETS		
Current assets:		
Due from other funds	\$ -	1,183,812
Total assets	-	1,183,812
LIABILITIES		
Current liabilities:		
Accounts payable	25,183	49,376
Due to other funds	58,015	-
Accrued expenses	-	829,465
Total liabilities	83,198	878,841
NET ASSETS		
Unrestricted net assets (deficit)	(83,198)	304,971
Total net assets	<u><u>\$ (83,198)</u></u>	<u><u>304,971</u></u>

Waco Independent School District
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Fund

Year Ended August 31, 2010

	<u>Business-type Activities</u>	<u>Governmental Activities</u>
	<u>Enterprise Fund</u>	<u>Internal Service Fund</u>
Operating revenues:		
Charges for services	\$ 470	454,402
Total operating revenues	<u>470</u>	<u>454,402</u>
Operating expenses:		
Payroll costs	47,303	-
Professional and contracted services	-	101,893
Supplies and materials	38,132	-
Other operating expenses	233	-
Claims expense	<u>-</u>	<u>424,393</u>
Total operating expenses	<u>85,668</u>	<u>526,286</u>
Operating loss	<u>(85,198)</u>	<u>(71,884)</u>
Non-operating revenue:		
Operating grant	<u>2,000</u>	<u>-</u>
Total non-operating revenue	<u>2,000</u>	<u>-</u>
Change in Net Assets	(83,198)	(71,884)
Total net assets, beginning	<u>-</u>	<u>376,855</u>
Total net assets, ending	<u><u>\$ (83,198)</u></u>	<u><u>304,971</u></u>

Waco Independent School District

Statement of Cash Flows
Proprietary Fund

For the Year Ended August 31, 2010

	Business-type Activities	Governmental Activities
	Enterprise Fund	Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from charges for services	\$ 470	496,478
Cash payments to employees for services	-	-
Cash payments for insurance claims	-	(394,585)
Cash payments for supplies	(2,470)	
Cash payments for other operating expenses	-	(101,893)
Net cash provided by operating activities	(2,000)	-
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Cash received from operating grants	2,000	-
Net cash provided by noncapital and related financing activities	2,000	-
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	\$ (85,198)	(71,884)
Effects of increases and decreases in assets and liabilities:		
Decrease in due from other funds	-	42,076
Increase (decrease) in accounts payable	25,183	(14,055)
Increase in due to other funds	58,015	
Increase in accrued expenses	-	43,863
Net cash provided by operating activities	\$ (2,000)	-

Waco Independent School District

Statement of Fiduciary Net Assets
Fiduciary Funds

August 31, 2010

	<u>Private Purpose Trust Fund</u>	<u>Agency Fund</u>
ASSETS		
Cash and cash equivalents	\$ 13,793	406,294
Accrued interest	376	-
Due from other funds	<u>278</u>	<u>1,619</u>
Total assets	<u>14,447</u>	<u>407,913</u>
LIABILITIES		
Accounts payable	-	39,200
Due to other funds	-	-
Due to student groups	<u>-</u>	<u>368,713</u>
Total liabilities	<u>-</u>	<u>407,913</u>
NET ASSETS		
Restricted for scholarships	<u>14,447</u>	
Total net assets	<u>\$ 14,447</u>	

Waco Independent School District
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Year Ended August 31, 2010

	Private Purpose Trust Fund
	<u> </u>
ADDITIONS	
Contributions:	
Interest on investments	\$ <u> 445</u>
Total contributions	<u> 445</u>
DEDUCTIONS	
Scholarships awarded	<u> 64</u>
Total deductions	<u> 64</u>
Change in net assets	381
Net assets, beginning	<u> 14,066</u>
Net assets, ending	\$ <u><u> 14,447</u></u>

Waco Independent School District

Notes to the Financial Statements Year Ended August 31, 2010

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 nonfiduciary activities with most of the interfund activities removed. *Governmental activities*, which include programs supported primarily by taxes, state foundation funds, grants and other intergovernmental revenues, are reported separately from *business-type activities*, which rely, to a significant extent, on fees and charges for support. There are no business-type activities reported for the District.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function. Examples include tuition paid by students, school lunch charges, etc. Operating grants and contributions include amounts paid by organizations outside the District that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items, not properly included among program revenues, are reported instead as general revenues.

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues result from providing goods and services in connection with a proprietary fund's principal ongoing operations; they usually come from exchange or exchange-like transactions. Operating expenses can be tied specifically to the production of the goods and services, such as materials and labor and direct overhead. Other revenues and expenses are non-operating. Since Internal Service funds support the operations of governmental funds, they are consolidated with the governmental funds in the government-wide financial statements. The expenditures of governmental funds that create the revenues of internal service funds are eliminated to avoid inflating the revenues and expenses of the District as a whole.

Waco Independent School District
Notes to the Financial Statements
(continued)

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.

Waco Independent School District
Notes to the Financial Statements
(continued)

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 utilized to account for financial resources used for general operations. It is the District's primary operating fund and is used to account for all activities for which a special fund has not been established. Fund balances are considered resources available for current operations. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund.

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 – This fund is used to account for resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds. The primary sources of revenues for debt service are the apportionment of local property taxes and state-funded grant programs.

Capital Projects Funds – The proceeds from long-term debt financing and revenues and expenditures related to authorized construction and other capital asset acquisitions are accounted for in these funds.

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

Other Governmental Funds:

Special Revenue Funds -- The District accounts for resources restricted to, or designated for, specific purposes by the District or a grantor in a special revenue fund. Most federal and some state financial assistance are accounted for in Special Revenue Funds. Generally, unused balances must be returned to the grantor at the close of specified project periods.

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.

Waco Independent School District
Notes to the Financial Statements
(continued)

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

Waco Independent School District
Notes to the Financial Statements
(continued)

E. Other Accounting Policies (continued)

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

7. Long-term obligations -- In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net 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. Arbitrage payable -- The Federal Tax Reform Act 1986 requires issuers of tax-exempt debt to make payments to the United States Treasury for investment income at yields that exceed the issuer's tax exempt borrowing rates. The Treasury requires that rebatable arbitrage be calculated for tax purposes every fifth year that a debt issue is outstanding and at maturity. In the district's government-wide statements, a liability must be recognized as soon as rebatable arbitrage occurs. However, in the fund financial statements, consistent with the modified accrual basis of accounting, no liability is recognized until due and payable.
9. Fund equity -- In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.
10. Blended Component Unit -- Generally accepted accounting principals 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.
11. 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 in to ensure accuracy in building a statewide data base for policy development and funding plans.

Waco Independent School District
Notes to the Financial Statements
(continued)

II. Reconciliation of Government-wide and Fund Financial Statements

A. Explanation of Certain Differences between the Governmental Fund Balance Sheet and the Government-wide Statement of Net Assets

Exhibit C-2 provides the reconciliation between the fund balance for total governmental funds on the governmental fund balance sheet and the net assets for governmental activities as reported in the government-wide statement of net assets.

One element of that reconciliation explains that capital assets are not financial resources and are therefore not reported in governmental funds. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period and are not reported as liabilities in the funds. The details of capital assets and long-term debt were as follows:

<u>Capital Assets</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Value at August 31, 2010</u>	<u>Change in Net Assets</u>
Land	\$ 10,153,246	-	10,153,246	
Buildings and improvements	157,014,161	90,846,807	66,167,354	
Furniture and equipment	20,578,319	10,076,984	10,501,335	
Construction in progress	70,673,563	-	70,673,563	157,495,498

<u>Long-term Liabilities</u>	<u>Payable at August 31, 2010</u>	
Bonds payable	209,649,993	
Add:		
Premium on issuance	5,399,045	
Accumulated accretion on capital appreciation bonds	754,663	
Less:		
Deferred charges on refunding	(1,823,211)	
Accrued interest payable	549,187	(214,529,677)
Net adjustment to net assets		<u>\$ (57,034,179)</u>

B. Explanation of Certain Differences between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities

Exhibit C-4 provides reconciliation between the net changes in fund balance as shown on the governmental fund statement of revenues, expenditures, and changes in fund balances and the changes in net assets of governmental activities as reported on the government-wide statement of activities. One element of that reconciliation explains that current year capital outlays and debt principal payments are expenditures in the fund financial statements, but should be shown as increases in capital assets and decreases in long-term debt in the government-wide statements. This adjustment affects both the net asset balance and the change in net assets as follows:

Waco Independent School District
Notes to the Financial Statements
(continued)

	Amount	Adjustments to Changes in Net Assets	Adjustments to Net Assets
Current Year Capital Outlay			
Land	\$ 886,891		
Buildings and improvements	3,438,067		
Furniture and equipment	4,646,927		
Construction in progress	<u>67,906,786</u>		
Total capital outlay	76,878,671		
Less current year depreciation	<u>(5,106,331)</u>	<u>71,772,340</u>	<u>71,772,340</u>
Debt Principal Payments			
General obligation bonds	13,545,000		
Maintenance tax notes	445,000		
Lease revenue bonds	<u>200,000</u>		
Total principal payments	14,190,000		
Debt Issued			
Refunding bonds issued	(7,575,000)		
Premium on bonds issued	(656,160)		
Loss on refunding	493,154		
Bond issuance costs	152,908		
Amortization of deferred amounts, net	161,723		
Accretion of interest on capital appreciation bonds	<u>(319,175)</u>	<u>6,447,450</u>	<u>6,447,450</u>
Total adjustment to net assets		<u>\$ 78,219,790</u>	<u>78,219,790</u>

III. 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. Each amendment must have Board approval. As required by law, such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year end. Because the District has a policy of careful budgetary control, amendments were necessary during the year. The Board made several supplemental budgetary appropriations throughout the year.

Waco Independent School District
Notes to the Financial Statements
(continued)

	Original Budget <u>Appropriation</u>	Increase (Decrease)	Amended Budget <u>Appropriation</u>
General Fund	\$ 113,511,956	(543,290)	112,968,666
National Breakfast and Lunch Program Fund	8,269,939	1,019,156	9,289,095
Debt Service Fund	<u>16,348,191</u>	<u>176,617</u>	<u>16,524,808</u>
	<u>\$ 138,130,086</u>	<u>652,483</u>	<u>138,782,569</u>

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, i.e. purchase orders and other contracts, outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be re-appropriated and honored during the subsequent year.

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, 2010.

IV. 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.

In addition, the following is disclosed regarding coverage of combined balances as of August 31, 2010:

Waco Independent School District
Notes to the Financial Statements
(continued)

A. Deposits and Investments (continued)

- a. Depository: JPMorgan Chase Bank, N.A. in Waco, Texas
- b. The market value of securities pledged as of August 31, 2010 on deposit was \$73,222,000.
- c. The combined balance of cash, savings and time deposit accounts on that date amounted to \$54,886,894.
- d. Total amount of FDIC coverage was \$250,000.

The **Public Funds Investment Act** (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports, and establishment of appropriate policies. Among other things, it requires a governmental entity to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit.

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. The Act also requires the entity to have independent auditors perform test procedures related to investment practices as provided by the Act. Waco Independent School District is in substantial compliance with the requirements of the Act and with local policies.

As of August 31, 2010, the District's cash and investment balances were as follows:

	Total Fair Value	Governmental Activities	Fiduciary Funds
Cash and cash equivalents:			
Cash in bank or on hand	\$ 52,175,700	51,769,406	406,294
Cash equivalents:			
Certificates of deposit	19,381,961	19,368,168	13,793
Insured Cash Shelter	7,508,133	7,508,133	-
Money market accounts	9,822	9,822	-
Public funds investment pools	35,195,712	35,195,712	-
Total cash equivalents	62,095,628	62,081,835	13,793
Total cash and cash equivalents	114,271,328	113,851,241	420,087
Investments	6,000,000	6,000,000	-
Total deposits and investments	\$ 120,271,328	119,851,241	420,087

- a. The public funds investments pools above are created pursuant to the Interlocal Cooperation Act of the State of Texas. The District has delegated the authority to hold legal title to the pools as custodian and to make investment purchases with the District's funds.

Waco Independent School District
Notes to the Financial Statements
(continued)

A. Deposits and Investments (continued)

1. District Policies and Legal and Contractual Provisions Governing Investments (continued)

Certificates of Deposit – The District entered into an agreement with SWS Financial Services, which assisted us in purchasing certificate of deposits through Promontory's Certificate of Deposit Account Registry Services (CDARS) in principal amounts that, when aggregated with interest to accrue over the term of the CD, will not exceed \$100,000, therefore ensuring that each CD will be insured by the Federal Deposit Insurance Corporation (FDIC). The last of these certificates of deposit matured during the fiscal year. The District also has multiple CD's at Compass Bank, Central National Bank, Community Bank & Trust, and Fidelity. 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 Account – Funds in the Insured Cash Shelter Account 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 -- 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 -- 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.

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.

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.

Texas Term -- Texas Term is a Texas public funds investment pool administered by Public Financial Management, Inc. TexasTerm is managed by a five-member board. TexasTerm markets the pool under "TexasDAILY Fund" which invests only in authorized investments under the Public Funds Investment Act with weighted average maturities which cannot exceed 60 days. The "Texas DAILY Fund" operates in a manner consistent with the SEC's Rule 2a-7 of the Investment Company Act of 1940. The "Texas DAILY Fund" uses amortized cost rather than market value to report net assets to compute share prices.

Waco Independent School District
Notes to the Financial Statements
(continued)

A. Deposits and Investments (continued)

1. District Policies and Legal and Contractual Provisions Governing Investments (continued)

- b. Additional policies and contractual provisions governing deposits and investments for Waco Independent School District are specified below:

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, 2009, MBIA is rated AAA/V-1+ by Fitch Ratings, TexPool and TexStar are rated AAAM by Standard and Poor's, Texas Term Daily is rated AAAM, Texas Term Fixed Securities are rated AAAs and Lone Star is rated AAAs/S-1+ by Standard and Poor's.

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

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

Interest Rate Risk -- To limit the risk that changes in interest rates will adversely affect the fair value of investments, the District manages its exposure to declines in fair values by limiting the maturity of its investment portfolio. The term of any collateralized mortgage obligation is limited to ten years, repurchase agreements may not exceed 90 days, banker's acceptances and commercial paper must have a stated maturity of 270 days or less, no-load money market mutual funds must have a dollar-weighted average stated maturity of 90 days or less, and no-load mutual funds must have an average weighted maturity of less than two years. The maximum allowable stated maturity of any other individual investment owned by the District cannot exceed two years.

Waco Independent School District
Notes to the Financial Statements
(continued)

A. Deposits and Investments (continued)

1. District Policies and Legal and Contractual Provisions Governing Investments (continued)

	Fair Value	Weighted Average Maturity (in Days)
Cash equivalents:		
Certificates of deposit:		
Central National Bank	\$ 5,312,955	347
Community Bank & Trust	2,520,500	347
Compass Bank	9,000,000	416
Fidelity Bank of Texas	2,534,713	347
Fiduciary Funds	13,793	986
Insured Cash Shelter	7,508,133	45
Money market accounts	9,822	41
Public funds investment pools:		
Lone Star Investment Pool (Lone Star)	13,671,611	0
MBIA Municipal Investors Service Corporation (MBIA)	1,084,460	0
Texas Local Government Investment Pool (TexPool)	11,306,541	0
Texas Short Term Asset Reserve Fund (TexStar)	1,175,284	0
TexasTERM Local Government Investment Pool (TexasDAILY)	7,957,816	0
	<u>62,095,628</u>	
Investments:		
Texas TERM Bonds	<u>6,000,000</u>	267
Total deposits and investments	<u>\$ 68,095,628</u>	
Portfolio weighted average maturity		137
Portfolio weighted average maturity excluding capital projects funds		0

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, 2009, on which the 2009 levy was based, was \$4,106,381,827. The District's maintenance and operations rate levied for 2009 was \$1.04005 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 for 2009 was \$0.32630 per \$100 of valuation.

C. Delinquent Taxes Receivable

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

Waco Independent School District
Notes to the Financial Statements
(continued)

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, 2010, consisted of the following amounts:

Funds	Receivable	Payable
General fund	\$ 2,775,661	1,185,710
National School Breakfast and Lunch fund	382,639	-
Debt service fund	-	-
Capital projects fund, series 2008	-	667,917
Other non-major governmental funds	571,943	3,004,310
Enterprise fund	-	58,015
Internal service fund	1,183,812	-
Private purpose trust fund	278	-
Agency funds	5,374	3,755
	<u>\$ 4,919,707</u>	<u>4,919,707</u>

E. Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. Deferred revenue at August 31, 2010 consisted of the following:

	General Fund	National School Lunch and Breakfast Fund	Debt Service Fund	Other Governmental Funds	Total
Unavailable:					
Delinquent property taxes	\$ 1,028,520	-	278,349	-	1,306,869
Unearned:					
State revenue	-	-	14,046	-	14,046
Grant draw downs received prior to meeting all eligibility requirements:					
USDA Commodities	-	20,561	-	-	20,561
Other federal programs	-	-	-	528	528
State programs:					
Professional Staff Development	-	-	-	2,269	2,269
Early Childhood Summer (LEP) Program	-	-	-	15,261	15,261
Advanced Placement Incentives	-	-	-	27,092	27,092
Technology Allotment	-	-	-	29,524	29,524
School Leadership Pilot	-	-	-	5,229	5,229
TWC Apprenticeship	-	-	-	27,362	27,362
Texas Ready to Read	-	-	-	6,526	6,526
Challenge Academy	-	-	-	81,918	81,918
Day School for the Deaf	-	-	-	186,504	186,504
Local grants	-	-	-	249,167	249,167
	<u>\$ 1,028,520</u>	<u>20,561</u>	<u>292,395</u>	<u>631,380</u>	<u>1,972,856</u>

Waco Independent School District
Notes to the Financial Statements
(continued)

F. Capital Asset Activity

Capital asset activity for the District for the year ended August 31, 2010, was as follows:

	Balance September 1, 2009	Additions	Deletions	Reclassifications	Balance August 31, 2010
<i>Capital assets, not being depreciated:</i>					
Land	\$ 9,266,355	886,891	-	-	10,153,246
Construction in progress	19,254,144	67,906,786	-	(16,487,367)	70,673,563
Total capital assets, not being depreciated	<u>28,520,499</u>	<u>68,793,677</u>	<u>-</u>	<u>(16,487,367)</u>	<u>80,826,809</u>
<i>Capital assets, being depreciated:</i>					
Buildings and improvements	137,100,697	3,438,067	-	16,475,397	157,014,161
Furniture, equipment and vehicles	<u>16,135,192</u>	<u>4,646,927</u>	<u>(215,770)</u>	<u>11,970</u>	<u>20,578,319</u>
Total capital assets, being depreciated	<u>153,235,889</u>	<u>8,084,994</u>	<u>(215,770)</u>	<u>16,487,367</u>	<u>177,592,480</u>
Less accumulated depreciation for:					
Buildings and improvements	87,081,287	3,765,520	-	-	90,846,807
Furniture, equipment and vehicles	<u>8,809,999</u>	<u>1,340,811</u>	<u>(73,826)</u>	<u>-</u>	<u>10,076,984</u>
Total accumulated depreciation	<u>95,891,286</u>	<u>5,106,331</u>	<u>(73,826)</u>	<u>-</u>	<u>100,923,791</u>
Total capital assets, being depreciated, net	<u>57,344,603</u>	<u>2,978,663</u>	<u>(141,944)</u>	<u>16,487,367</u>	<u>76,668,689</u>
Governmental activities capital assets, net	<u>\$ 85,865,102</u>	<u>71,772,340</u>	<u>(141,944)</u>	<u>-</u>	<u>157,495,498</u>

Waco Independent School District
Notes to the Financial Statements
(continued)

F. Capital Asset Activity (continued)

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

Function	Description	Amount
11	Instruction	\$ 2,855,275
12	Instructional resources and media services	90,845
13	Curriculum and instructional staff development	2,974
21	Instructional leadership	11,598
23	School leadership	65,657
31	Guidance, counseling and evaluation services	17,414
33	Health services	20,767
34	Student transportation	586,753
35	Food services	243,009
36	Extracurricular activities	522,869
41	General administration	35,830
51	Plant maintenance and operations	135,205
52	Security and monitoring services	36,245
53	Data processing services	231,113
61	Community services	6,313
81	Facilities acquisition and construction	244,464
Total depreciation expense - governmental activities		<u>\$ 5,106,331</u>

G. Long-Term Debt

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

The following is a summary of changes in long-term debt for the year ended August 31, 2010.

	Balance September 1, 2009	Increases	Decreases	Prior Period Adjustment	Balance August 31, 2010	Due Within One Year
Bonds payable:						
General obligation bonds, maintenance tax notes and lease revenue bonds	\$ 216,169,993	7,575,000	(14,190,000)	95,000	209,649,993	5,635,075
Deferred amounts:						
For issuance premiums	5,115,273	656,160	(372,388)	-	5,399,045	-
On refunding	(1,500,746)	(493,154)	170,689	-	(1,823,211)	-
Accumulated accretion	435,488	319,175	-	-	754,663	-
Total long-term debt payable	<u>\$ 220,220,008</u>	<u>8,057,181</u>	<u>(14,391,699)</u>	<u>95,000</u>	<u>213,980,490</u>	<u>5,635,075</u>

Principal balance on general obligation bonds was understated at August 31, 2009 due to an error in recording matured capital appreciation bonds. The matured amount of \$1,190,000 rather than the original principal of \$1,095,000 was deducted from bonds payable. As a result, interest expense was also understated for the fiscal year ended August 31, 2009 by \$95,000.

Waco Independent School District
Notes to the Financial Statements
(continued)

G. Long-Term Debt (continued)

The District issued \$7,575,000 in unlimited tax refunding bonds to provide resources to refinance, a portion of the Series 2001 bonds. Standard and Poor's rating service affirmed the District's issuer credit rating of AA1 and Moody's affirmed its underlying rating of A1.

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, 2010, \$30,430,000 of bonds considered defeased are still outstanding.

General obligation debt at August 31, 2010, 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%	\$ 5,655,000
\$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%	13,119,993
\$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%	4,500,000
\$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%	127,845,000
\$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%	45,245,000
\$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%	<u>7,465,000</u>
Total general obligation bonds	203,829,993
\$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%	2,720,000
\$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%	<u>3,100,000</u>
Total long-term debt	<u><u>\$ 209,649,993</u></u>

Waco Independent School District
Notes to the Financial Statements
(continued)

G. 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
2011	\$ 4,960,075	10,489,491	15,449,566
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
2016-2020	31,105,000	42,807,412	73,912,412
2021-2025	30,595,000	36,062,114	66,657,114
2026-2030	35,520,000	25,370,801	60,890,801
2031-2035	45,540,000	15,343,000	60,883,000
2036-2038	33,160,000	3,369,750	36,529,750
	<u>203,829,993</u>	<u>171,119,635</u>	<u>374,949,628</u>
Less interest accretion in future years	<u>3,206,723</u>		
Total principal due as of August 31, 2010	<u>\$ 200,623,270</u>		

There are a number of limitations and restrictions contained in the general obligation bond indenture. The District is in compliance with all significant limitations and restrictions at August 31, 2010.

Summary information for the capital appreciation bonds is as follows:

Series	Original Amount Outstanding	Accreted Value August 31, 2010
Unlimited Tax Refunding Bonds, Series 2004	\$ 1,967,517	2,441,542
Unlimited Tax Refunding Bonds, Series 2006	422,085	493,480
Unlimited Tax School Building Bonds, Series 2009	4,550,010	4,753,225
Unlimited Tax Refunding Bonds, Series 2010	679,001	685,028
Total	<u>\$ 7,618,613</u>	<u>8,373,275</u>

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

Year Ended August 31,	Principal	Interest	Total
2011	\$ 675,000	287,913	962,913
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
2016-2020	2,115,000	250,563	2,365,563
Totals	<u>\$ 5,820,000</u>	<u>1,354,526</u>	<u>7,174,526</u>

Waco Independent School District
Notes to the Financial Statements
(continued)

H. Defined Benefit Pension Plan

Plan Description. The Waco Independent School 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 2010, 2009 and 2008, a state contribution rate of 6.4% for fiscal years 2010 and 2009 and 6.58% for fiscal year 2008. 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, 2010	Year Ended August 31, 2009	Year Ended August 31, 2008
State TRS on-behalf contributions	\$ 3,536,208	3,577,478	3,553,206
District contributions for above statutory minimum	<u>923,475</u>	<u>734,577</u>	<u>554,434</u>
Total	<u>\$ 4,459,683</u>	<u>4,312,055</u>	<u>4,107,640</u>

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

Waco Independent School District

Notes to the Financial Statements (continued)

I. School District Retiree Health Plan

Plan Description. The District contributes to the Texas Public School Retired Employees Group Insurance Program (TRS-Care), a cost-sharing multiple employer defined benefit post-employment health care plan administered by TRS. TRS-Care Retired Plan provides health care coverage for certain persons (and their dependents) who retired under TRS. The statutory authority for the program is Texas Insurance Code, Chapter 1575. Section 1575.052 grants the TRS Board of Trustees the authority to establish and amend basic and optional group insurance coverage for participants. 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 2010, 2009, and 2008. 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 2010, 2009, and 2008 are as follows:

	Year Ended August 31, 2010	Year Ended August 31, 2009	Year Ended August 31, 2008
State TRS on-behalf contributions	\$ 694,004	273,097	515,729
Active member contributions	497,984	529,881	510,289
District contributions to TRS Care	629,063	543,506	431,780
Total	\$ 1,821,051	1,346,484	1,457,798

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 \$195,271, \$167,958, and \$163,514 for fiscal years 2010, 2009, and 2008, 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.

J. Due from State Agencies

The District participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. In addition, the District receives entitlements from the State through the School Foundation and Per Capita Programs. Amounts due from other governments as of August 31, 2010, 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	\$ 4,223,816	125,798	-	4,349,614
Special Revenue	283,199	3,299,204	43,280	3,625,683
Debt Service	653,738	-	-	653,738
Total	\$ 5,160,753	3,425,002	43,280	8,629,035

Waco Independent School District
Notes to the Financial Statements
(continued)

K. Revenue from Local and Intermediate Sources

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

	General Fund	National School Breakfast and Lunch Fund	Debt Service Fund	Capital Projects Fund, Series 2008	Other Governmental Funds	Total
Property taxes, penalties, interest, and other tax related income	\$ 39,581,320	-	12,339,783	-	-	51,921,103
Food sales	-	809,367	-	-	-	809,367
Investment income	103,183	266	16,907	1,551,751	608	1,672,715
Extracurricular activities	652,022	-	-	-	-	652,022
Tuition and fees	548,273	-	-	-	-	548,273
SSA revenue from member districts	64,123	-	-	-	1,322,680	1,386,803
Other	276,317	-	-	-	1,166,505	1,442,822
	<u>\$ 41,225,238</u>	<u>809,633</u>	<u>12,356,690</u>	<u>1,551,751</u>	<u>2,489,793</u>	<u>58,433,105</u>

L. Economic Dependency

During the year ended August 31, 2010, the District received 44% of its revenues from the State of Texas and 21% from federal sources.

M. 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, 2010, 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, 2010, the District was party to construction contracts totaling approximately \$132.1 million of which \$101.2 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.

N. 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, Gholson 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, Valley Mills 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 as follows:

Waco Independent School District

Notes to the Financial Statements (continued)

	Student Days Attended	Fund 446 McLennan Co. Challenge Academy
Axtell I.S.D.	71	\$ 5,357
Bosqueville I.S.D.	21	1,584
Bruceville-Eddy I.S.D.	177	13,354
China Spring I.S.D.	498	37,573
Connally I.S.D.	470	35,460
Crawford I.S.D.	62	4,678
La Vega I.S.D.	882	66,545
Lorena I.S.D.	107	8,073
Bill Logue Juvenile Detention Center	1,013	76,428
Mart I.S.D.	59	4,451
McGregor I.S.D.	355	26,784
Methodist Home	274	20,673
Midway I.S.D.	995	75,070
Moody I.S.D.	246	18,560
Riesel I.S.D.	12	905
Robinson I.S.D.	524	39,535
Valley Mills I.S.D.	20	1,509
Waco I.S.D.	9,019	680,463
West I.S.D.	210	15,844
	<u>15,015</u>	<u>\$ 1,132,846</u>

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, Hill County, Heart of Texas Cooperative, La Vega ISD, Midway ISD, and the Rio Brazos Cooperative. 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 on the following page:

Member	Number of Students	Fund 458 Local Funds Day School for the Deaf
Axtell I.S.D.	1	\$ 12,748
Connally I.S.D.	2	25,496
Educational Cooperative of Central Texas	1	12,748
Falls County Cooperative	1	12,748
Hill County	2	25,496
Heart of Texas Cooperative	1	12,748
La Vega I.S.D.	2	25,496
Midway I.S.D.	4	50,991
Robinson I.S.D.	2	25,496
Waco I.S.D.	11	140,224
Total Expenditures	<u>27</u>	<u>\$ 344,191</u>

Waco Independent School District

Notes to the Financial Statements (continued)

O. 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*.

P. 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; injuries to employees; and natural disasters for which the District carries commercial insurance. The district established a limited risk management program for workers' compensation and unemployment in 2004. Contributions are paid by other funds to an internal service fund and are available to pay claims, reserves, and program administration costs.

Liabilities of the internal service fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNR). The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are reevaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amount of pay-outs), and other economic and social factors. The estimate of the claims liability also includes amounts for incremental claim adjustment expenses related to specific claims and other claim adjustment expenses regardless of whether allocated to specific claims. For the 2009-10 plan year, an excess coverage insurance policy covers aggregate claims in excess of \$799,226. Settlements for the 2005 plan year have exceeded the aggregate liability for that year by \$191,099. Changes in the balances of claims liabilities during the past year are as follows:

Unpaid claims, beginning	\$	849,033
Incurred claims (including IBNR)		445,960
Claim payments		<u>(424,393)</u>
Unpaid claims, ending	\$	<u>870,600</u>

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 2001, 2008 and 2009 series bonds and, as of August 31, 2010 there was no arbitrage rebate liability on bonds issued.

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Required Supplementary Information

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Waco Independent School District
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
General Fund

For the Year Ended August 31, 2010

Data Control Codes		Budgeted Amounts			Variances With Final Budget
		Original	Final	Actual	
REVENUES					
5700	Local and intermediate sources	\$ 41,753,315	\$ 43,811,060	\$ 41,225,238	\$ (2,585,822)
5800	State program revenues	66,027,212	66,027,212	67,018,895	991,683
5900	Federal program revenues	5,731,429	2,094,258	2,311,717	217,459
5020	Total revenues	113,511,956	111,932,530	110,555,850	(1,376,680)
EXPENDITURES					
Current:					
6011	Instruction	60,676,648	56,940,016	55,837,880	1,102,136
6012	Instructional resources and media services	1,137,054	1,158,560	1,124,203	34,357
6013	Curriculum and instructional staff development	1,518,653	1,158,526	1,109,784	48,742
6021	Instructional leadership	2,241,507	2,113,364	2,033,389	79,975
6023	School leadership	8,268,367	8,319,225	8,156,758	162,467
6031	Guidance, counseling and evaluation services	3,491,045	3,529,336	3,465,764	63,572
6032	Social work services	856,839	841,733	812,500	29,233
6033	Health services	1,185,094	1,205,482	1,157,203	48,279
6034	Student transportation services	2,641,899	3,161,574	2,600,676	560,898
6036	Cocurricular/extracurricular activities	3,615,314	3,498,067	3,395,712	102,355
6041	General administration	3,234,257	3,231,557	3,130,058	101,499
6051	Plant maintenance and operations	15,096,045	14,954,438	14,683,257	271,181
6052	Security and monitoring services	1,874,837	1,893,386	1,809,588	83,798
6053	Data processing services	2,229,791	3,520,827	3,340,374	180,453
6061	Community services	1,187,144	1,226,805	1,205,129	21,676
6093	Payments to fiscal agent/member districts of shared services arrangements	125,000	208,000	208,000	-
6095	Payments to Juvenile Justice Alternative Education Program	688,507	702,001	677,568	24,433
6097	Payments to tax increment fund	1,819,797	2,032,172	2,006,362	25,810
6099	Other intergovernmental charges	656,058	654,476	640,288	14,188
Debt service:					
6071	Debt service - principal on long term debt	645,000	645,000	645,000	-
6072	Debt service - interest on long term debt	319,100	318,115	318,115	-
6073	Debt service - bond issuance cost and fees	4,000	200,024	149,900	50,124
Capital outlay:					
6081	Facilities acquisition and construction	-	1,455,982	1,337,467	118,515
6030	Total expenditures	113,511,956	112,968,666	109,844,975	3,123,691
1100	Excess (deficiency) of revenues over (under) expenditures	-	(1,036,136)	710,875	(1,747,011)
OTHER FINANCING SOURCES (USES)					
7911	Capital related debt issued (regular bonds)	-	163,006	163,006	-
7912	Sale of real and personal property	-	201,000	201,000	-
7949	Insurance Recovery	-	-	1,752,978	1,752,978
	Total other financing sources (uses)	-	364,006	2,116,984	1,752,978
1200	Net change in fund balances	-	(672,130)	2,827,859	3,499,989
0100	Fund balances, beginning	25,025,428	26,208,934	26,208,934	-
3000	Fund balances, ending	\$ 25,025,428	\$ 25,536,804	\$ 29,036,793	\$ 3,499,989

Waco Independent School District
Notes to the Schedule of Revenues, Expenditures and Changes in Fund Balances –
Budget and Actual
General Fund
Year Ended August 31, 2010

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, 2010

Supplemental Information

**Waco Independent School District
Schedule of Delinquent Taxes Receivable
For the Year Ended August 31, 2010**

	1	2	3
	Tax Rates		Assessed
	Maintenance	Debt	Appraised Value
	& Operation	Service	For School
			Tax Purposes
Last Ten Years Ended August 31,			
2001 and prior years	Various	Various	Various
2002	1.46670	0.12530	2,260,405,653
2003	1.36650	0.11850	2,582,658,519
2004	1.40570	0.11850	2,789,240,192
2005	1.41983	0.11850	3,081,814,435
2006	1.44559	0.11850	3,198,779,674
2007	1.32181	0.12200	3,370,354,309
2008	1.04005	0.12200	3,520,746,064
2009	1.04005	0.31910	3,725,943,682
2010 (school year under audit)	1.04005	0.32630	3,871,126,355
100 Totals			

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

Exhibit J-1

10	20	31	32	40	50
Balance September 1, 2009	Current Year's Total Levy	Total Collections Maintenance & Operations	Debt Service	Entire Year's Adjustments	Balance August 31, 2010
465,695	-	8,558	855	(75,952)	380,330
96,073	-	2,002	171	(9,182)	84,718
135,391	-	5,562	482	(5,327)	124,020
144,907	-	6,305	532	(5,294)	132,776
159,685	-	7,518	627	(3,025)	148,515
210,346	-	11,538	946	(11,329)	186,533
288,855	-	51,419	4,746	1,423	234,113
398,719	-	114,053	13,379	(11,948)	259,339
1,187,304	-	450,015	138,070	(125,212)	474,007
-	52,893,135	38,426,579	12,055,760	(1,017,432)	1,393,364
3,086,974	52,893,135	39,083,549	12,215,568	(1,263,278)	3,417,715
112,758	2,222,968	1,687,118	526,319	21,792	144,081

570

Waco Independent School District
Schedule of Expenditures for Computations of Indirect Costs -
General and Special Revenue Funds
For the Year Ended August 31, 2010

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	\$ -	-	230,540	1,921,509	-	-	2,152,049
6149	Leave for separating employees in fnc 41, 53	-	-	-	5,137	-	-	5,137
6149	Leave for separating employees not in fnc 41, 53	-	-	-	-	-	-	-
6211	Legal services	35,039	-	128,742	-	41,484	-	205,265
6212	Audit services	-	-	-	55,370	-	-	55,370
6213	Tax appraisal and collection	-	775,572	-	-	-	-	775,572
6219	Other professional services	-	-	-	-	-	-	-
6230	Education Service Centers	525	-	-	9,025	-	-	9,550
6240	Contracted maintenance and repairs	-	-	-	-	37,978	-	37,978
6250	Utilities	-	-	-	-	1,376	-	1,376
6260	Rentals	-	-	3,714	35,685	-	-	39,399
6290	Miscellaneous contracted services	3,280	-	1,178	112,386	-	-	116,844
6320	Textbooks and reading materials	252	-	956	1,787	-	-	2,995
63XX	Other supplies and materials	761	-	1,475	132,546	-	-	134,782
6410	Travel and stipends	1,224	-	11,999	31,843	-	-	45,066
6420	Insurance and bonding costs	-	-	-	90,071	-	-	90,071
6430	Election costs	6,771	-	-	-	-	-	6,771
6490	Miscellaneous operating costs	21,936	-	29,803	40,382	-	-	92,121
6600	Capital outlay	-	-	-	-	-	-	-
6000	Total	\$ 69,788	775,572	408,407	2,435,741	80,838	-	3,770,346
Total expenditures for General and Special Revenue Funds								(9) \$ 148,991,744
Less: deductions of unallowable costs:								
FISCAL YEAR								
Total capital outlay (6600 costs)						(10)	4,025,096	
Total debt and lease (6500 costs)						(11)	1,113,015	
Plant maintenance (function 51, 6100-6400)						(12)	14,852,312	
Food (function 35, 6341 and 6499)						(13)	3,678,821	
Column 4 (above) - total indirect cost							2,435,741	
Subtotal								26,104,985
Net allowed direct costs								\$ 122,886,759
CUMULATIVE								
Total cost of buildings before depreciation							(15) \$	156,731,294
Historical cost of building over 50 years old							(16) \$	75,343,681
Amount of federal money in building cost							(17) \$	-
Total cost of furniture and equipment before depreciation							(18) \$	20,578,319
Historical cost of furniture and equipment over 16 years old							(19) \$	3,055,665
Amount of federal money in furniture and equipment							(20) \$	1,434,579

(8) NOTE A: No function 53 expenditures are included in this report on administrative costs. \$640,288 in Function 99 expenditures for appraisal district costs are included.

Waco Independent School District
Fund Balance and Cash Flow Calculation Worksheet - General Fund
(Unaudited)
August 31, 2010

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)	\$ 29,036,793
2	Total reserved fund balance (from Exhibit C-1 - total of object 3400s for the general fund only)	\$ 1,264,159
3	Total designated fund balance (from Exhibit C-1 - total of object 3500s for the general fund only)	700,065
4	Estimated amount needed to cover fall cash flow deficits in the general fund (net of borrowed funds and funds representing deferred revenues)	-
5	Estimate of two month's average cash disbursements during the regular school session (9/1/10 - 5/31/11)	26,331,407
6	Estimate of delayed payments from State sources (58XX) including August payment delays	-
7	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	1,692,136
8	Estimate of delayed payments from federal sources (59XX)	3,643,020
9	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)	-
10	Adjustment to meet Board policy	-
11	Optimum fund balance and cash flow (lines 2 through 10)	<u>33,630,787</u>
12	Excess (Deficit) undesignated unreserved general fund balance (line 1 minus line 11)	<u>\$ (4,593,994)</u>

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 20.0% of appropriations. At August 31, 2010, the ratio of undesignated unreserved general fund balance to expenditures was 24.7%. Anticipating no additional revenue for the 2010-11 fiscal year, these excess funds will be utilized in covering inflationary increases in expenditures.

Waco Independent School District
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
National School Breakfast and Lunch Fund
For the Year Ended August 31, 2010

Data Control Codes		Budgeted Amounts		Actual	Variances With Final Budget
		Original	Final		
REVENUES					
5700	Local and intermediate sources	\$ 848,396	808,396	809,633	1,237
5800	State program revenues	65,543	65,543	75,779	10,236
5900	Federal program revenues	7,356,000	8,398,661	8,452,678	54,017
5020	Total revenues	8,269,939	9,272,600	9,338,090	65,490
EXPENDITURES					
Current:					
6035	Food services	7,864,939	8,911,409	8,560,936	350,473
6051	Plant maintenance and operations	405,000	377,686	345,575	32,111
6030	Total expenditures	8,269,939	9,289,095	8,906,511	382,584
1100	Excess (deficiency) of revenues over (under) expenditures	-	(16,495)	431,579	448,074
1200	Net change in fund balances	-	(16,495)	431,579	448,074
0100	Fund balances, beginning	450,985	457,116	457,116	-
3000	Fund balances, ending	\$ 450,985	440,621	888,695	448,074

Waco Independent School District

Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
Debt Service Fund

For the Year Ended August 31, 2010

Data Control Codes		Budgeted Amounts		Actual	Variances With Final Budget
		Original	Final		
REVENUES					
5700	Local and intermediate sources	\$ 12,395,506	12,553,761	12,356,690	(197,071)
5800	State program revenues	4,184,266	4,202,628	3,832,295	(370,333)
5020	Total revenues	16,579,772	16,756,389	16,188,985	(567,404)
EXPENDITURES					
	Current:				
6097	Payments to tax increment fund	479,726	528,722	526,236	2,486
	Debt service:				
6071	Debt service - principal on long-term debt	5,860,000	5,970,000	5,970,000	-
6072	Debt service - interest on long-term debt	9,998,465	10,015,465	10,013,682	1,783
6073	Debt service - bond issuance cost and fees	10,000	10,621	9,675	946
6030	Total expenditures	16,348,191	16,524,808	16,519,593	5,215
1100	Excess (deficiency) of revenues over (under) expenditures	231,581	231,581	(330,608)	(562,189)
OTHER FINANCING SOURCES (USES)					
7911	Bonds issued	-	-	7,411,994	7,411,994
7916	Premium on bonds issued	-	-	656,160	656,160
8949	Other (uses)	-	-	(8,068,154)	(8,068,154)
	Total other financing sources (uses)	-	-	-	-
1200	Net change in fund balances	231,581	231,581	(330,608)	(562,189)
0100	Fund balances, beginning	2,280,614	3,185,975	3,185,975	-
3000	Fund balances, ending	\$ 2,512,195	3,417,556	2,855,367	(562,189)

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Overall Compliance, Internal Control and Federal Awards

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

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, 2010, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 7, 2011. 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.

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, LLP

Belt Harris Pechacek, LLP
Certified Public Accountants
Houston, Texas
January 7, 2011



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND 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 are applicable to each of its major federal programs for the year ended August 31, 2010. 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, 2010. The results of our auditing procedures disclosed no instances of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133.

Providing Governmental & Nonprofit Audits Sealed with Excellence

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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, 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, LLP

Belt Harris Pechacek, LLP
Certified Public Accountants
Houston, Texas
January 7, 2011

WACO
INDEPENDENT SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
For the Year Ended August 31, 2010

A. SUMMARY OF PRIOR YEAR AUDIT FINDINGS

No prior year findings.

Waco Independent School District

Schedule of Expenditures of Federal Awards

Year Ended August 31, 2010

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	\$ 1,835,123
National School Lunch Program *2	10.555	71300401	5,669,131
Food Distribution	10.550	161026A	469,472
ARRA - NSLP - Equipment Assistance Grant	10.579	6TX340332	478,952
Summer Feeding Program	10.559	7561013	531,707
Total Passed Through the State Department of Agriculture			8,984,385
Total U.S. Department of Agriculture			<u>8,984,385</u>
U.S. Department of Defense			
Direct programs:			
Junior Reserve Officer Training Corp	12.000		86,150
Payments in Lieu of Taxes - Flood Control	12.112		839
Total Direct Programs Through the U.S. Department of Defense			86,989
Total U.S. Department of Defense			<u>86,989</u>
U.S. Department of Labor			
Passed Through the Texas Workforce Commission			
WIA Dislocated Worker - National Reserve Demo	17.280	1310ATP000	17,280
Total U.S. Department of Labor			<u>17,280</u>
Federal Communications Commission			
Direct programs:			
Universal E-Rate	32.000		1,506,497
Total Direct Programs through the Federal Communications Commission			1,506,497
Total Federal Communications Commission			<u>1,506,497</u>
U.S. Department of Education			
Passed Through State Department of Education			
ESEA Title I, Part A - Improving Basic Programs *3	84.010A	10610101161914	6,430,383
ESEA Title I, Part A - Improving Basic Programs *3	84.010A	11610101161914	431,816
ESEA Title I, Part A - School Improvement *3	84.010A	10610104161914002	214,899
ESEA Title I, Part A - School Improvement *3	84.010A	10610104161914003	174,403
ESEA Title I, Part A - School Improvement *3	84.010A	10610104161914043	49,064
ESEA Title I, Part A - School Improvement *3	84.010A	10610104161914049	37,191
Total CFDA Number 84.010A			7,337,756

Waco Independent School District

Schedule of Expenditures of Federal Awards
(Continued)

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 Education (continued)			
IDEA, Part B - Formula *1	84.027	106600011619146600	3,766,399
IDEA, Part B - Formula *1	84.027	116600011619146600	161,733
SSA - IDEA, Part B - Discretionary (Deaf) *1	84.027	106600021619146673	20,034
SSA - IDEA, Part B - Formula Deaf *1	84.027	106600011619146601	18,551
Total CFDA Number 84.027			<u>3,966,717</u>
Career and Technical - Basic Grant	84.048	10420006161914	233,989
Career and Technical - Basic Grant	84.048	11420006161914	34,077
Total CFDA Number 84.048			<u>268,066</u>
IDEA, Part B - Preschool *1	84.173	10661001619146610	29,475
IDEA, Part B - Preschool *1	84.173	116610011619146610	1,827
SSA - IDEA - Part B, Preschool Deaf *1	84.173	106610011619146611	1,302
Total CFDA Number 84.173			<u>32,604</u>
ESEA, Title IV - Safe and Drug Free Schools	84.186A	10691001161914	85,014
ESEA, Title I, Part B - Even Start Family Literacy	84.213	106120027110015	159,653
ESEA, Title IV, Part B - 21st Century Community	84.287	096950127110025	1,302,453
ESEA, Title IV, Part B - 21st Century Community	84.287	106950127110025	48,844
Total CFDA Number 84.287			<u>1,351,297</u>
ESEA Title II, Part D - Enhancing Ed Thru Technology	84.318	10630001161914	66,569
ESEA Title II, Part D - Enhancing Ed Thru Technology	84.318A	10630001161914	30,042
Total CFDA Number 84.318			<u>96,611</u>
Reading First	84.357	09645501710064	1,125,485
ESEA Title III, Part A - English Language Acquisition	84.365A	10671001161914	273,379
ESEA Title II, Part A - Teacher/Principal Training	84.367A	10694501161914	799,618
ESEA Title II, Part A - Teacher/Principal Training	84.367A	11694501161914	106,619
Total CFDA Number 84.367A			<u>906,237</u>
ESEA Title I, SIP Academy Grant	84.377A	10610701161914002	84,183
ESEA Title I, SIP Academy Grant	84.377A	10610701161914003	93,876
Total CFDA Number 84.377A			<u>178,059</u>
ESEA Title II, Part D - Discretionary Grant	84.386	10694501161914	134,606
ESEA Title II, Part D - Discretionary Grant	84.386A	105530027110032	632,808
Total CFDA Number 84.386			<u>767,414</u>

Waco Independent School District

Schedule of Expenditures of Federal Awards
(Continued)

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 Education (continued)			
ESEA Title X, Part C - ARRA Educatn for Homeless	84.387	A09-043	126,104
ESEA Title I, Part A - ARRA - Improving Basic Pgms *3	84.389A	10551001161914	2,375,131
ESEA Title I, Part A - ARRA - School Improvement *3	84.389A	10551004161914043	36,152
ESEA Title I, Part A - ARRA - School Improvement *3	84.389A	10610104161914049	24,381
Total CFDA Number 84.389			2,435,664
IDEA, Part B, Formula - ARRA	84.391	10554001161914	743,827
IDEA, Part B, Preschool - ARRA	84.392	10555001161914	33,800
Title XIV, State Fiscal Stabilization Fund - ARRA	84.394	10557001161914	4,541,113
Total U.S. Department of Education			24,428,800
U.S. Department of Health and Human Services			
Passed Through State Health and Human Services Commission			
Community Youth Development	93.556	23758681	29,675
Medical Assistance Program - MAC	93.778		555,348
Medical Assistance Program - SHARS	93.778		37,086
Total CFDA Number 93.778			592,434
Total U.S. Department of Health and Human Services			622,109
Total Expenditures of Federal Awards			\$ 35,646,060

Total Federal Program Revenues from Schedule C-3 \$35,646,060

*1 Clustered programs under OMB Circular A-133

*2 Clustered programs under OMB Circular A-133

*3 Clustered programs under OMB Circular A-133

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

Year Ended August 31, 2010

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
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended August 31, 2010

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:

ESEA Title VI	84.287
ARRA, Title XIV, SFSF	84.394
First Reading	84.357
Universal E Rate	32.000
Title I, Part A Cluster	84.010 and 84.389
Special Education (IDEA) Cluster	84.027, 84.391, 84.392, and 84.173
Child Nutrition Cluster	10.553, 10.555, and 10.559
8. The threshold for distinguishing Type A and B programs was \$1,069,382.
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
Schools FIRST Questionnaire
For the Year Ended August 31, 2010**

SF2	Were there any disclosures in the Annual Financial Report and / or other sources of information concerning default on bonded indebtedness obligations?	No
SF4	Did the district receive a clean audit? Was there an unqualified opinion in the Annual Financial Report?	Yes
SF5	Did the Annual Financial Report disclose any instances of material weaknesses in internal controls	No
SF9	Was there any disclosure in the Annual Financial Report of material noncompliance?	No
SF10	Total Accumulated accretion on capital appreciation bonds included in government-wide financial statements at fiscal year end.	\$754,663