WACO
INDEPENDENT SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED AUGUST 31, 2009

Waco Independent School District
Table of Contents

	Page	Exhibit
Certificate of Board	1	
Independent Auditors' Report	2	
Management's Discussion and Analysis	4	
Basic Financial Statements:		
Government-wide Financial Statements:		
Statement of Net Assets	17	A-1
Statement of Activities	18	B-1
Fund Financial Statements:		
Balance Sheet – Governmental Funds	19	C-1
Reconciliation of Fund Balances of Governmental Funds to Net Assets of Governmental Activities	20	C-2
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	21	C-3
Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to Statement of Activities	22	C-4
Statement of Net Assets – Proprietary Fund	23	D-1
Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Fund	24	D-2
Statement of Cash Flows – Proprietary Fund	25	D-3
Statement of Fiduciary Net Assets – Fiduciary Funds	26	E-1
Statement of Changes in Fiduciary Net Assets – Fiduciary Funds	27	E-2
Notes to Financial Statements	28	
Required Supplemental Information:		
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund	51	G-1
Note to Schedule of Revenue, Expenditures, and Change in Fund Balances – Budget and Actual – General Fund and Child Nutrition Fund	52	
Supplemental Information:		
Schedule of Delinquent Taxes Receivable	53	J-1
Schedule of Expenditures for Computation of Indirect Costs – General and Special Revenue Funds	55	J-1
Fund Balance and Cash Flow Calculation Worksheet – General Fund (Unaudited)	56	J-3
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Child Nutrition Fund	57	J-4
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Debt Service Fund	58	J-5
Compliance, Internal Control and Federal Awards:		
Report on Internal Control over Financial Reporting and on Compliance Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	59	
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133	61	
Schedule of Findings and Questioned Costs	63	
Schedule of Prior Audit Findings	64	
Schedule of Expenditure of Federal Funds	65	K-1
Notes to Schedule of Expenditures of Federal Awards	67	

Introductory Section

Certificate of Board

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

We the undersigned, certify that the attached annual financial and compliance reports of the above named independent school district were reviewed and approved for the year ended August 31, 2009 at a meeting of the Board of Trustees of such independent school district on the 21st day of January 2010.

Board Secretary

Board President

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

Financial Statements

John R. Pechacek

Certified Public Accountant

P.O. Box 549 • Bellville, Texas 77418-0549 • 979.865.3169 • Fax 979.865.9829

Independent Auditor's Report on Financial Statements
Board of Trustees
Waco Independent School District
P.O. Box 27
Waco, Texas 76703-0027

Members of the Board of Trustees:

I have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Waco Independent School District as of and for the year ended August 31, 2009, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Waco Independent School District's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that I 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. I believe that my audit provides a reasonable basis for my opinions.

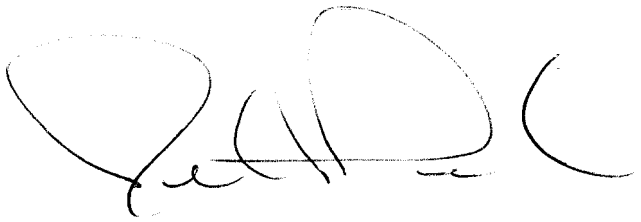
In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Waco Independent School District as of August 31, 2009, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards, I* have also issued my report dated January 15, 2010, on my consideration of Waco Independent School District's internal control over financial reporting and on my 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 my 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 my audit.

The Management's Discussion and Analysis and the budgetary comparison information identified as Required Supplementary Information in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was performed for the purpose of forming opinions on the financial statements which collectively comprise the Waco Independent School District's basic financial statements. The accompanying schedule of expenditures of federal awards required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations* and the supporting schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information, except for that portion marked "unaudited" on which I express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Respectfully submitted,



John R. Pechacek, CPA

January 15, 2010

Management’s Discussion and Analysis

Waco Independent School District

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended August 31, 2009

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, 2009. 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.

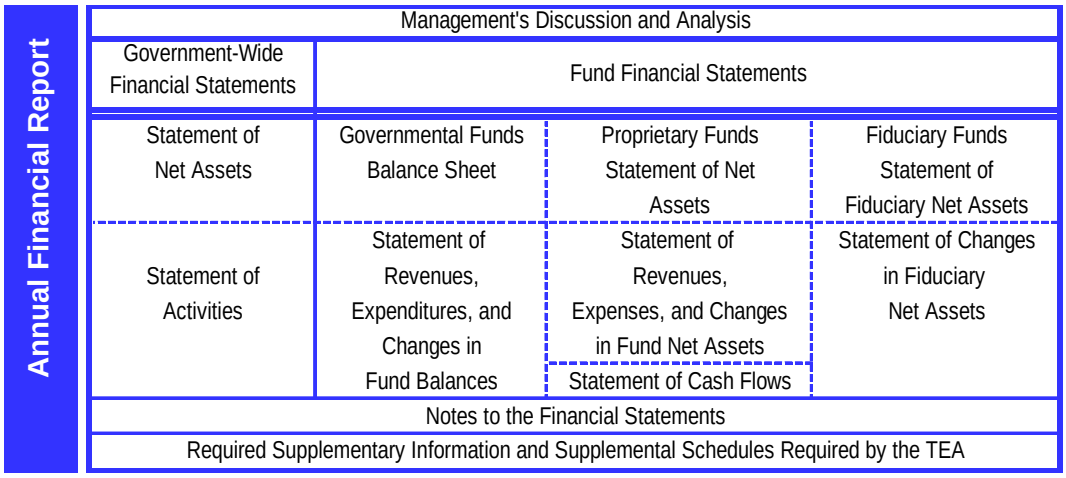
FINANCIAL HIGHLIGHTS

The following highlight changes in the District's financial position at August 31, 2009:

- On a government-wide basis, the District's total assets exceeded its liabilities by $46,848,946. This amount represents the District's net assets of which $16,595,278 is invested in capital assets net of related debt and $2,345,472 is restricted for debt service. The remaining $27,908,196 is unrestricted and may be used to meet the District's ongoing obligations.
- The District's total net assets increased by $7,296,858 over the prior year however, unrestricted net assets increased only $322,495.
- As of August 31, 2009 the District's governmental funds reported combined ending fund balances of $180,165,230, an increase of $25,417,300 compared with the prior year. $24,886,922 or 13.8% of the combined fund balances 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 $26,208,934 at August 31, 2009, of which $24,886,922 was unreserved and undesignated. The unreserved and undesignated amount represents 23% of its annual operating expenditures. Although, the total fund balance increased by $488,723 over the prior year, the unreserved and undesignated fund balance increased by $1,017,081, reflecting decreases in reserves for inventories and encumbrances as well as decreases in funds designated for special projects.
- The ending fund balance for the National School Breakfast and Lunch Programs was $457,116, an increase of $113,184 over the prior year. This amount includes an increase of $52,798 in reserves for inventories.
- Again this year, the District issued Unlimited Tax School Building bonds for the construction, renovation and equipping of school buildings throughout the District. These general obligation bonds, in the amount of $45,500,000, represent the last of the bonds authorized by the May 10, 2008 election. Cash inflows from these bonds were structured to increase reserves in the Debt Service fund. The fund balance reserved for debt service increased by $1,138,134 to $3,185,975 at August 31, 2009.

OVERVIEW OF THE FINANCIAL STATEMENTS

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



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

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

Government-wide Financial Statements

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

The statement of net assets includes all the District's assets and liabilities at the end of the year, with the difference between the two reported as *net assets.* This statement consolidates current financial resources with capital assets and long-term obligations. Although the purpose of the District is not to accumulate net assets, in general, as the amount increases or decreases, it may indicate whether its need 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, sharing the costs of specific functions, and general purpose revenues provided by the taxpayers or by the State through formula grants.

Internal services, accounted for in a proprietary fund, 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.

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 maintains no enterprise funds.
  - *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.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The District's overall financial position and operations for the fiscal years ended August 31, 2009 and 2008 are summarized as follows, based on the information included in the government-wide financial statements.

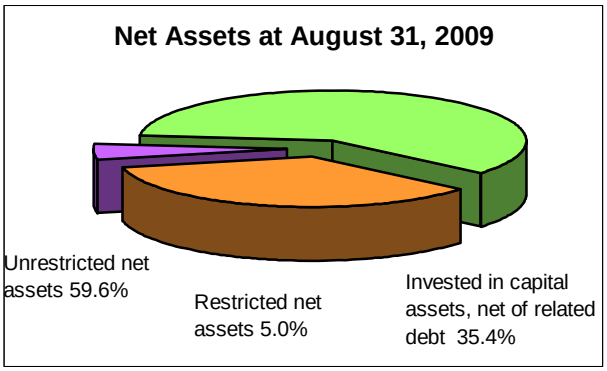
Schedule of Net Assets

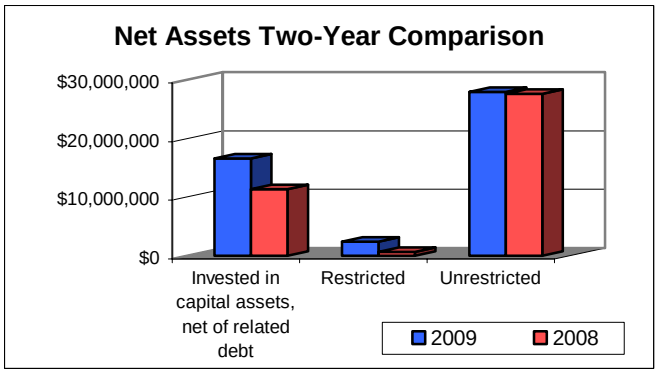
	Governmental Activities		
	2009	2008	% Change
Current and other assets	$ 196,872,509	$ 164,341,397	19.79%
Capital assets	85,865,102	62,690,711	36.97%
Total assets	282,737,611	227,032,108	24.54%
Current liabilities	22,173,657	14,193,667	56.22%
Long-term liabilities	213,715,008	173,286,353	23.33%
Total liabilities	235,888,665	187,480,020	25.82%
Net assets:			
Invested in capital assets, net of related debt	16,595,278	11,379,742	45.83%
Restricted	2,345,472	586,645	299.81%
Unrestricted	27,908,196	27,585,701	1.17%
Total net assets	$ 46,848,946	$ 39,552,088	18.45%

The District's total assets exceed total liabilities by $46,848,946 at August 31, 2009, increasing $7,296,858 over the prior year. At the end of the fiscal year, 59.6% 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 35.4% of the District's net assets were invested in capital assets net of related debt. This amount represents investments in land, buildings and improvements, and furniture and equipment, less any 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 $5,215,536. Capital assets increased $23,174,391, net of related depreciation of $2,255,487, while related debt increased $41,873,655. Total debt is offset by unexpended debt proceeds in the amount of $126,476,445 in the calculation.

The remaining 5% of the net assets represents resources that are subject to external restrictions on how they may be used. These restricted net assets represent amounts legally reserved under bond covenants for debt service.





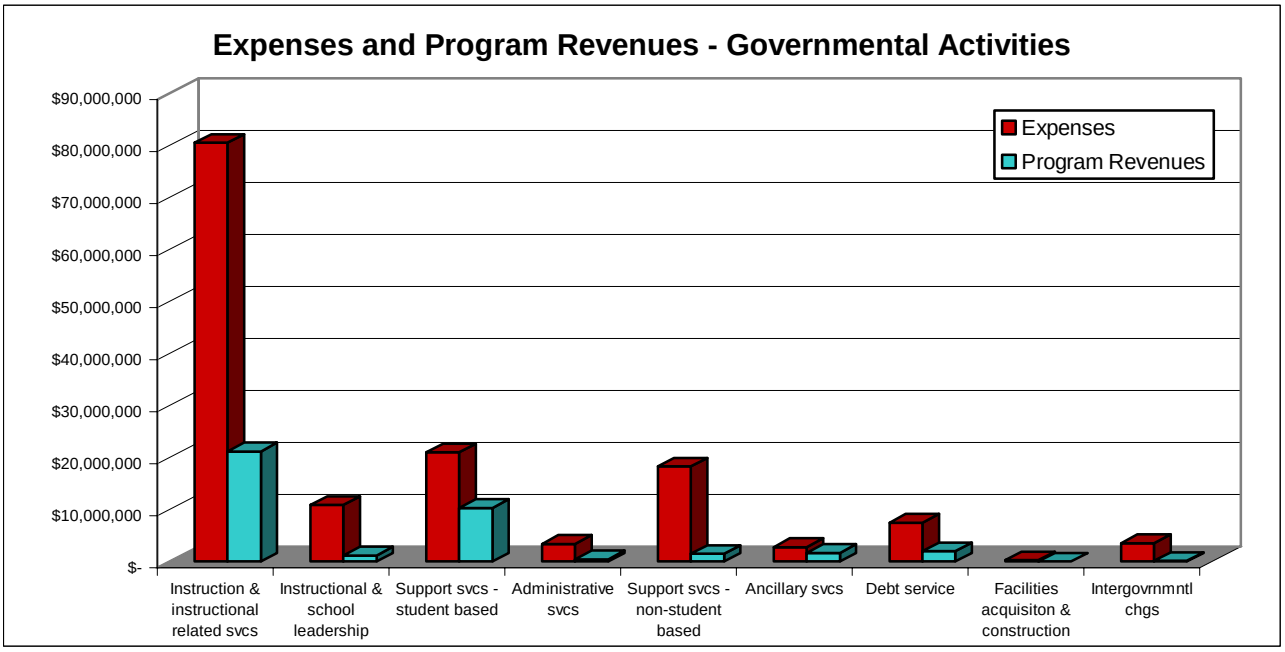
Changes in Net Assets

The following table provides a summary comparing the District's operations for the years ended August 31, 2009 and 2008. For the year ended August 31, 2009 governmental activities increased the District's net assets by $7,296,858.

Changes in Net Assets

	Governmental Activities		
	2009	2008	% Change
Revenues:			
Program Revenues:			
Charges for services	$ 3,359,835	$ 3,248,035	3.44%
Operating grants and contributions	34,782,389	34,723,254	0.17%
General Revenues:			
Property taxes	49,263,271	40,746,422	20.90%
State aid -- formula grants	63,075,511	64,792,250	-2.65%
Investment earnings	4,181,333	1,435,663	191.25%
Miscellaneous revenue	645,601	789,196	-18.20%
Total revenues	155,307,940	145,734,820	6.57%
Expenses:			
Instruction	74,048,981	73,579,542	0.64%
Instructional resources and media services	1,281,988	1,274,013	0.63%
Curriculum development and instructional staff development	5,214,559	4,400,174	18.51%
Instructional leadership	2,460,887	2,471,105	-0.41%
School leadership	8,430,436	8,128,499	3.71%
Guidance, counseling and evaluation services	4,199,899	4,241,210	-0.97%
Social work services	870,106	861,141	1.04%
Health services	1,091,411	1,013,621	7.67%
Student transportation	2,669,696	2,846,305	-6.20%
Food services	8,330,123	7,987,328	4.29%
Extracurricular activities	3,785,466	3,967,493	-4.59%
General administration	3,397,332	3,137,939	8.27%
Plant maintenance and operations	14,330,895	15,046,951	-4.76%
Security and monitoring services	1,737,200	1,649,371	5.32%
Data processing services	2,216,588	3,173,049	-30.14%
Community services	2,751,001	2,087,377	31.79%
Debt service - interest on long-term debt	7,463,119	3,461,521	115.60%
Debt service - bond issuance costs and fees	4,422	7,550	-41.43%
Facilities Acquisition and construction	227,997	541	-
Payments to fiscal agents/member districts of shared services arrangements	199,932	216,105	-
Payments to Juvenile Justice Alternative Education program	602,096	606,215	-0.68%
Payments to tax increment fund	2,087,472	1,859,983	
Other intergovernmental charges	625,138	596,346	-
Total expenses	148,026,744	142,613,379	3.80%
Increase or (decrease) in net assets before transfers, special and extraordinary items	7,281,196	3,121,441	133.26%
Special items -- gain on sale of equipment	15,662	609,740	-97.43%
Increase or (decrease) in net assets	7,296,858	3,731,181	95.56%
Net assets, September 1	39,552,088	35,820,907	10.42%
Net assets, August 31	$ 46,848,946	$ 39,552,088	18.45%

The cost of all governmental activities totaled $148,026,744 increasing $5,413,365 over the prior year. Program revenues of $3,359,835, in the form of charges for services, and $34,782,389, 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:



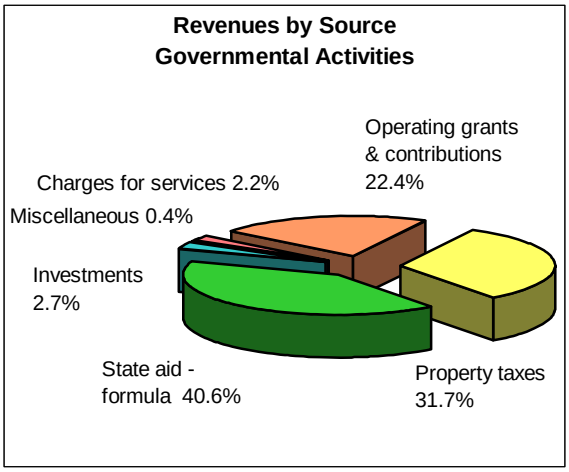
The District's primary source of revenue comes from the State's formula funding through the Foundation School Program. State formula grants contributed $63,075,411, 40.6%, of the District's $155,307,940 total revenue. While this amount is down $1,716,739, last year's State funding amount included a funding adjustment of $1,938,575 resulting from a change in law. Three major factors impact State funding: property valuations and collections, representing local effort, and average daily attendance. The District's property values have continued to consistently increase but the 2008-09 school year also saw a slight increase in average daily attendance of 42.82. The increase in State revenue is a direct result of the increase in average daily attendance.

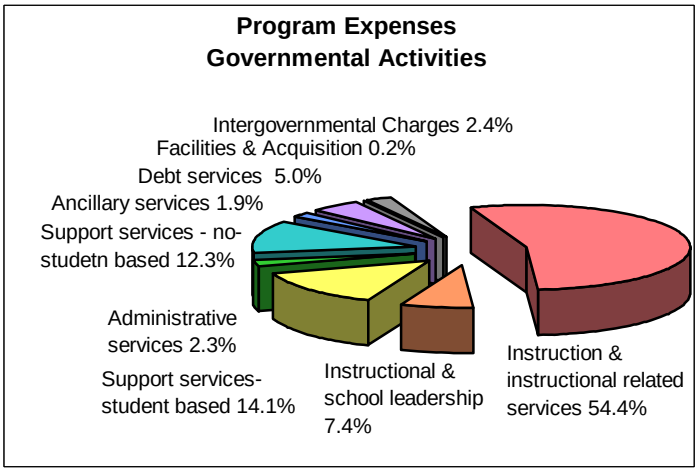
Local property tax revenue contributed an additional $49,263,271 or 31.7% of the total revenue. Property taxes for general purposes increased $1,096,828 due to valuation increases. Property taxes levied for debt service increased $7,420,021 due, in part to valuation increases, but primarily to an increase in the tax rate from $0.1220 per $100 of valuation to $0.3191 per $100 of valuation. This increase was necessitated by the increase in debt service for newly issued bonds. The rate for maintenance and operations remained unchanged at $1.04005.

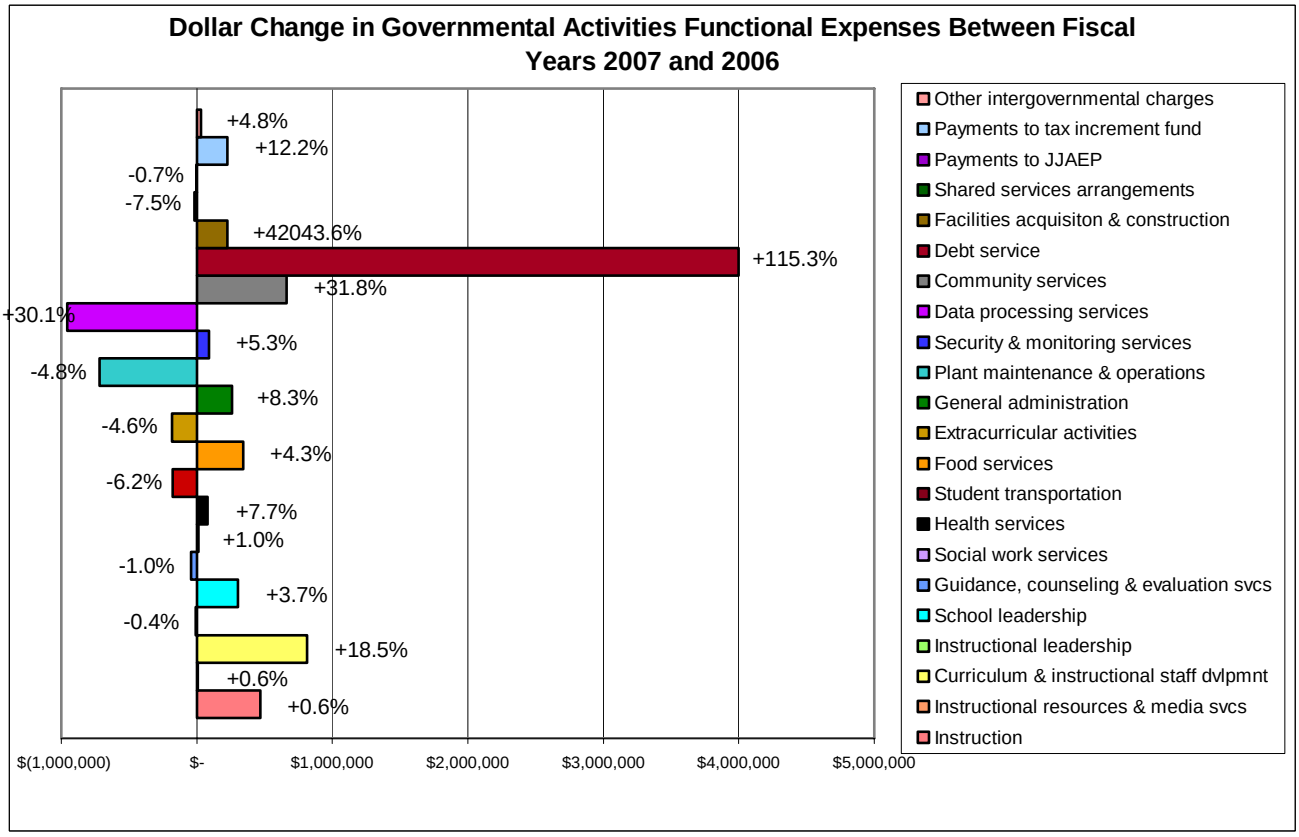
Expenses for governmental activities increased $5,413,365 over the prior year. 73.9% or $4,001,598 of this increase is attributable to the increase in interest on long-term debt resulting from the afore-mentioned debt issuance. The Board of Trustees also approved a compensation package with an estimated cost to the District of $1.8 million, providing and average increase of 3% to all employees. The compensation increase, as well as other inflationary increases, was partially offset by savings, estimated at $500,000, resulting from the closing of one of the District's seven middle schools.

State funding formulas continued to force increases to special program appropriations, namely bilingual, career and technical, and compensatory education.

The following charts show: 1) the District's revenues for its government-wide activities by source; 2) expenses by function; and 3) the change in expenses from the prior year. General revenues, such as taxes, State aid and investment income, are not reflected in the above program revenues but are included on the governmental activities revenue chart to illustrate their significance.







Significant changes in expenses occurred in debt service as a result of new debt issuances; data processing services resulting from a decrease in funding for E-rate projects; and in curriculum and instructional staff development and community services resulting from increases in grant funding. While the percent of increase in facilities acquisition is quite large, the actual dollar increase was only $227,489.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Governmental Funds

At August 31, 2009, the Waco Independent School District's governmental funds reported combined ending fund balances of $180,165,230, an increase of $25,417,300 from the prior year. The increase is, once again, primarily due to the increase in capital projects fund balance of $23,677,259, the net effect of issuing an additional new debt and expending previously issued bonds. 13.8% of the combined fund balance is unreserved and undesignated and may be used to support general operations. The remainder of the fund balance is reserved or designated to indicate that it is not available for new spending because it has already been committed for specific purposes.

The general fund supports most of the District's educational program and support operations. As of August 31, 2009, the fund balance for the general fund totaled $26,208,934, increasing $488,723 over the year ended August 31, 2008. The unreserved and undesignated portion of the fund balance increased $1,017,081 to $24,886,922 while reserved and designated fund balances decreased by $528,358.

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 23.0% of total fund expenditures, while the total fund balance represents 24.3%.

The fund balance of the National School Breakfast and Lunch Program once again showed improvement. Revenues exceeded expenditures by $113,184. The fund balance at year's end totaled $457,116 with $187,228 reserved for inventories on hand.

The reserve in the debt service fund increased $1,138,134. Of this amount, $642,407 resulted from the structuring of bonded debt issued in August, 2009. Premiums on capital appreciation bonds allowed the full authorized $45,500,000 for capital projects and provided funds to cover issuance costs and boost the debt service reserve. The ending debt service reserve represents 23.7% of the annual debt service.

Proprietary Funds

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 $576,654. Fees paid to the third party administrator totaled $96,067. Claims incurred totaled $390,765 but were netted against a reduction in the estimate of unpaid incurred claims of $70,740. Actual claims experience decreased slightly, from $391,634 in 2007-08. Projected unpaid incurred claims of $785,602 were accrued at August 31, 2009. Ending net assets for the fund totaled $376,855 or 48.0% 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 $108,880,159. Original revenue estimates for the general fund totaled $108,497,504. A $382,655 reduction in fund balance was anticipated.

During the year, State revenue estimates were increased by $1,248,048 based on average daily attendance projections, federal revenue estimates were increased by $68,856 for E-rate projects carried forward, and local revenue estimates were decreased by $706,119. While local revenues for rentals and insurance recovery were increased $43,881 and collections for the Tax Increment Fund were increased $25,000, estimates of investment income were decreased by $775,000 due to the extremely low interest rates available throughout the fiscal year.

At year's end, realized revenue was short of budgeted amounts by $738,469. This was due primarily to lower than expected State program revenues of $764,806, $374,279 attributable to overestimates of TRS on-behalf payments, $200,527 to an over-projection of average daily attendance and $190,000 attributable to the delay in the availability of State reimbursement of the District's TIRZ payments.

General fund appropriations were increased by $2,477,638. Budgets for previously designated funds, in the amount of $928,059 as well as incomplete purchase orders of $542,695 were rolled forward into the 2008-09 fiscal year. Revenue increases discussed above were offset by corresponding appropriations, $68,856 for E-rate projects, $43,881 for rental activities and expenditures related to insurance recoveries, and $25,000 in payments related to collections for the Tax Increment Fund. Of the $1,248,048 estimated increase in State Revenue, $524,728 was allocated to related program increases, primarily in Career and Technical Education. The remaining increase in revenue estimate was offset by a corresponding decrease in estimated investment earnings.

In August, 2009, $281,098 was amended from the unreserved and undesignated fund balance to cover the purchase of computers and other equipment damaged during construction at A.J. Moore Academy. It is anticipated that subsequent insurance recovery, after applying the District's deductible of $110,000, will cover most of this expenditure.

Additionally, $115,000 from the sale of school buses was re-appropriated for future bus purchases.

Final appropriations were under expended by $3,350,567. $1,039,709 of the under expenditure occurred in function 11, instruction. $203,830 of this amount was due to the reclassification of pre-award costs to the ARRA Stabilization funds. A total of $242,227 in general fund expenditures for 2008-09 was charged as pre-award costs to this grant as allowed under the federal appropriations bill. Additionally approximately $76,500 in salary costs, $84,600 in contracted services, and $31,800 in miscellaneous operating costs were under spent. The remaining amount was due to the under spending of $662,000 in appropriations for supplies and materials.

Other significant under expenditures occurred in functions 51, plant maintenance and operations, and 34, student transportation services. Budgeted appropriations in plant maintenance and operations exceeded expenditures by $1,217,035. This was due, primarily to a $965,071 savings in contracted services, $710,523 of which was in utility costs. In the fall of 2008, the District's electricity provider converted computer systems, delaying November and December invoices. Although invoices were eventually paid, the amounts billed were considerably less than anticipated resulting in a savings of $525,000 in electricity costs. An additional $126,239 was under spent in supplies and materials much of which was for projects carried forward into the 2009-10 fiscal year.

Student transportation services under spent appropriations by $409,486. Again, most of these excess funds, $336,650, are attributable to the sale of buses and are designated for future bus purchases.

Results of operations produced a higher than anticipated ending fund balance. While original budget estimates anticipated that expenditures would exceed revenues by $382,655, at year's end realized revenue exceed actual expenditures by $488,613, a swing of $871,268.

CAPITAL ASSET AND DEBT ADMINISTRATION

The District's investment in capital assets for its governmental activities as of August 31, 2009, totaled $85,865,102, net of accumulated depreciation of $95,891,286. Capital assets, net of accumulated depreciation increased $23,174,391 from the August 31, 2008 balance. The investment in capital assets includes facilities and equipment utilized in instruction, student support services, administrative services, as well as community services, maintenance, security and data processing services.

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

Capital Asset Summary

	Governmental Activities	
	August 31, 2009	August 31, 2008
Land	$ 9,266,355	$ 4,546,443
Buildings and improvements	50,019,410	50,181,519
Furniture and equipment	7,325,193	6,038,304
Construction in progress	19,254,144	1,924,445
Total capital assets, net of accumulated depreciation	$ 85,865,102	$ 62,690,711

Major capital asset acquisitions for the current fiscal year included:

- Acquisition of land totaling $4,719,912;
- Construction-in-progress of $17,329,699 for bond projects authorized in the May, 2008 bond election, primarily the new J.H. Hines Elementary and University High schools;
- $2,871,615 in building improvements, including major improvements to the mechanical systems at Cedar Ridge Elementary;
- Lighting and turf replacement at the athletic complex totaling $853,042; and
- Acquisition of a new security camera system totaling $703,096 and the replacement of vehicles totaling $776,742, including buses of $543,542.

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, 2009, the District had debt obligations totaling $220,220,008. $5,165,000 in bonds was retired during the 2008-09 fiscal year through scheduled debt service payments. On August 1, 2009, $45.5 million of the remaining debt authorized by the May, 2008, bond election, was issued. Bond payments due within one year total $6,505,000.

Debt Summary

	Governmental Activities	
	August 31, 2009	August 31, 2008
General obligation bonds	$ 216,169,993	$ 175,834,993
Capital lease obligations	-	-
Unamortized bond issuance premium	5,115,273	3,806,590
Unamortized bond refunding loss	(1,500,746)	(1,626,603)
Accumulated accretion	435,488	331,373
Total long-term debt	$ 220,220,008	$ 178,346,353

With the temporary suspension of the guarantee provided by the Texas Permanent School Fund, the District was forced to rely on its underlying rating for the 2009 issue. In reviewing the District's financial status, Standard and Poor's upgraded the District's rating from a 'A+' to a 'AA-', Moody's affirmed its previous rating of 'A1'. In addition, the District was required to obtain bond insurance for this issue.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

With the state of the national economy impacting both the District and State coffers, approximately $5,000,000 of the District's general operations for the 2009-10 fiscal year, scheduled to be funded through the State's Foundation School Program, were funded through the American Recovery and Reinvestment Act (ARRA) Stabilization funds. These federal funds will continue to replace state funding through the 2010-11 fiscal year. Additionally, at the end of the first quarter, interest rates have not increased by any significant amount so it is expected that the District's investment earnings will remain low for 2009-10.

In funding the 2009-10 budget, the Board of Trustees maintained a maintenance and operations rate of $1.04005. State formula funding was computed on an average daily attendance of 13,796. This represents a 61 student decrease from 2008-09. With changes in funding formulas enacted by the 81st legislature and increases in local property values, estimates of general fund revenues increased approximately $5 million over original estimates for 2008-09. However, $951,400 of the increased revenue in the general fund is attributable to the high school allotment which, although previously accounted for in a special revenue fund, is now required to be reported through the general fund. This amount does not represent a real increase in revenue but a change in accounting treatment.

As a component of the new legislation, the District was required to give an $80 per month increase for educators, including teachers, nurses, librarians, counselors and speech language pathologists. The increase in revenue permitted the Board to approve a $2.4 million compensation package for all employees, including a 3.3% increase for teachers, nurses, librarians, counselors and speech language pathologists as well as a 3% of the midpoint increase for all other employee groups. The approved package also included stipend increases for science, foreign language, special education and athletics totaling $332,105 and an increase in daily rates for substitutes.

Of the remaining revenue, $232,000 was allocated to cover increases in payments into the Tax Increment Fund and $242,000 to utility increases. Additionally, $1 million was allocated to expand existing programs and fund other discretionary requests. These allocations included $290,000 for additional language arts teachers at middle schools, $328,000 to expand the secondary fine arts program, $160,000 to expand the International Baccalaureate program into the middle years. $191,000 was budgeted for PSAT and SAT testing and review, funding for CScope curriculum, and staff development costs associated with the Princeton Review program. Finally, the maintenance projects fund of $175,000 was increased to $200,000.

With the issuance of an additional $45.5 million in general obligation bonds, the District's tax rate for interest and sinking was increased from $0.319099 to $0.326300 per $100 of valuation. The bond issue was structured to incorporate a payment on the debt prior to August 31, 2009. This was done in order to make the new debt eligible for funding under the State's existing debt allotment. State revenue for this purpose is expected to increase $2.4 million over that received in 2008-09. It is anticipated that, with the increase in State funding and continued property value increases, the tax rate for debt service will decrease in future years. With the availability of these bond funds, none of the unreserved and undesignated fund balance is expected to be utilized for a major improvements or repairs during the 2009-10 fiscal year.

According to a recent report issued by the Texas State Comptroller, the steep drop in oil prices and the downward trend in national economic indicators are expected to negatively impact the Texas economy throughout 2009. Employment rates are expected to decline by 1.1 percent paralleled by a similar decrease in income growth. The State's previously vibrant industries included construction and energy which have both now suffered substantial retrenchment. The strongest growth potential is expected in professional and business services. Recession in the European markets and the slowing in the Asian markets are expected to have a negative impact on Texas' exports particularly in the telecommunications, biotech and electronics industries. These conditions, if sustained for an extended period of time, could have continued negative consequences for the State's economy and its ability to finance the Foundation School Program.

Locally, the unemployment rate increased to 7.2 percent in October which is slightly less than the State's rate. The Waco economy has remained fairly strong for the first part of 2009 with the downward trends in construction and housing. Waco tends to run behind the rest of the country when it comes to economic trends so it is anticipated that the economic downturn may continue to impact the City through 2010.

Although the local economy is expected to remain fairly stable with continued modest property value growth, State funding legislation passed in 2009 does not allow for any inflationary increases for the 2010-11 fiscal year. Increases in State funding will result from increases in average daily attendance. Considering the District's flat or slightly decreasing historical trends in average daily attendance, no additional revenue is anticipated to cover cost increases for the 2010-11 fiscal year. However, the planned consolidation of two elementary schools and the healthy balance in unreserved and undesignated fund balances, should allow the District to cover any projected cost increases without cutting existing programs. Future salary increases and the District's long-range financial stability may depend on Waco ISD continuing to look for additional efficiencies and initiating cost saving measures.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances. Questions concerning this report or requests for additional information should be addressed to the Assistant Superintendent of Business and Support Services, Waco I.S.D., 501 Franklin Avenue, Waco, Texas 76701.

Basic Financial Statements

Waco Independent School District

Statement of Net Assets

August 31, 2009

Data Control Codes		Governmental Activities
	ASSETS	
1110	Cash and cash equivalents	$ 188,214,029
1225	Property taxes receivable, net of allowance for uncollectibles of $1,820,436	1,266,539
1240	Due from other governments	5,290,903
1250	Accrued interest receivable	1,009,658
1290	Other receivables	428,155
1310	Inventories	457,831
1410	Deferred expenses	3,903
1420	Capitalized bond and other debt issuance costs	201,491
	Capital assets, net of accumulated depreciation:	
1510	Land	9,266,355
1520	Buildings and improvements	50,019,410
1530	Furniture and equipment	7,325,193
1580	Construction in progress	19,254,144
	Total assets	282,737,611
	LIABILITIES	
2110	Accounts payable	11,361,136
2140	Accrued interest payable	579,946
2150	Payroll deductions and withholdings	715,476
2160	Accrued wages	1,393,979
2170	Due to fiduciary funds	311,774
2180	Due to other governments	23,571
2200	Accrued expenses	785,602
2300	Unearned revenue	497,173
	Noncurrent liabilities:	
2510	Due within one year	6,505,000
2510	Due after one year	213,715,008
	Total liabilities	235,888,665
	NET ASSETS	
3200	Invested in capital assets, net of related debt	16,595,278
	Restricted for:	
3800	Debt service	2,345,472
3900	Unrestricted	27,908,196
	Total net assets	$ 46,848,946

Waco Independent School District

Statement of Activities

For the Year Ended August 31, 2009

Data Control Codes		Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Governmental Activities
	Governmental Activities:				
11	Instruction	$ 74,048,981	1,304,688	15,641,716	(57,102,577)
12	Instructional resource and media services	1,281,988	-	143,887	(1,138,101)
13	Curriculum and instructional staff development	5,214,559	-	4,058,087	(1,156,472)
21	Instructional leadership	2,460,887	-	543,592	(1,917,295)
23	School leadership	8,430,436	147,461	469,205	(7,813,770)
31	Guidance, counseling and evaluation services	4,199,899	49,154	934,009	(3,216,736)
32	Social work services	870,106	24,577	113,913	(731,616)
33	Health services	1,091,411	-	123,867	(967,544)
34	Student transportation	2,669,696	-	15,571	(2,654,125)
35	Food services	8,330,123	768,424	7,549,916	(11,783)
36	Cocurricular/extracurricular activities	3,785,466	643,996	79,821	(3,061,649)
41	General administration	3,397,332	213,719	214,503	(2,969,110)
51	Plant maintenance and operations	14,330,895	121,797	841,890	(13,367,208)
52	Security and monitoring services	1,737,200	24,577	63,008	(1,649,615)
53	Data processing services	2,216,588	-	384,161	(1,832,427)
61	Community services	2,751,001	-	1,633,971	(1,117,030)
72	Interest on long-term debt	7,463,119	-	1,959,478	(5,503,641)
73	Bond issuance cost and fees	4,422	-	-	(4,422)
81	Facilities Acquisition and construction	227,997	-	-	(227,997)
93	Payments to fiscal agents/member districts of shared services arrangements	199,932	61,442	11,794	(126,696)
95	Payments related to Juvenile Justice Alternative Education Program	602,096	-	-	(602,096)
97	Payments to tax increment zones	2,087,472	-	-	(2,087,472)
99	Other intergovernmental charges	625,138	-	-	(625,138)
	Total governmental activities	$ 148,026,744	3,359,835	34,782,389	(109,884,520)

Data Control Codes		
	General revenues:	
	Taxes:	
MT	Property taxes, levied for general purposes	37,586,991
DT	Property taxes, levied for debt service	11,676,280
SF	State aid-formula grants	63,075,511
IE	Investment earnings	4,181,333
MI	Miscellaneous	645,601
SI	Gain on disposal of land, buildings and equipment	15,662
TG	Total general revenues	117,181,378
CN	Change in net assets	7,296,858
NB	Net assets, beginning	39,552,088
NE	Net assets, ending	$ 46,848,946

Waco Independent School District

Balance Sheet
Governmental Funds

August 31, 2009

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	$ 27,083,443	71,134	2,219,697	158,614,772	224,983	188,214,029
1225	Property taxes receivable (net of allowances for uncollectibles)	1,034,886	-	231,653	-	-	1,266,539
1240	Due from other governments	1,233,400	231,135	428,948	-	3,397,420	5,290,903
1250	Accrued interest receivable	-	-	-	1,009,658	-	1,009,658
1260	Due from other funds	4,208,956	120,008	500,365	-	358,550	5,187,879
1290	Other receivables	85,011	-	-	246,070	97,074	428,155
1310	Inventories	232,301	225,530	-	-	-	457,831
1410	Deferred expenditures	3,448	-	-	-	455	3,903
	Total assets	$ 33,881,445	647,807	3,380,663	159,870,500	4,078,482	201,858,897
	LIABILITIES AND FUND BALANCES						
	Liabilities:						
2110	Accounts payable	$ 2,437,998	136,552	-	8,546,250	176,905	11,297,705
2150	Payroll deductions and withholdings payable	715,476	-	-	-	-	715,476
2160	Accrued wages payable	1,137,160	15,837	-	-	240,982	1,393,979
2170	Due to other funds	2,516,586	-	-	1,008,955	3,200,000	6,725,541
2180	Due to other governments	-	-	-	2,090	21,481	23,571
2300	Deferred revenues	865,291	38,302	194,688	-	439,114	1,537,395
	Total liabilities	7,672,511	190,691	194,688	9,557,295	4,078,482	21,693,667
	Fund balances:						
	Reserved for:						
3410	Investments in inventory	232,301	187,228	-	-	-	419,529
3420	Debt service	-	-	3,185,975	-	-	3,185,975
3430	Prepaid items	3,448	-	-	-	-	3,448
3440	Encumbrances	500,027	-	-	74,731,614	-	75,231,641
3450	Food service	-	269,888	-	-	-	269,888
3470	Capital acquisition program	-	-	-	75,581,591	-	75,581,591
	Unreserved, designated for:						
3530	Capital Expenditures for Equipment	336,650	-	-	-	-	336,650
3590	Maintenance and other projects	249,586	-	-	-	-	249,586
3600	Unreserved, undesignated	24,886,922	-	-	-	-	24,886,922
	Total fund balances	26,208,934	457,116	3,185,975	150,313,205	-	180,165,230
	Total liabilities and fund balances	$ 33,881,445	647,807	3,380,663	159,870,500	4,078,482	201,858,897

Waco Independent School District

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

August 31, 2009

Data Control Codes			
3600	Fund balances - total governmental funds (Exhibit C-1)	$	180,165,230
	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.		376,855
2	Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		85,865,102
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.		(220,799,954)
4	Certain bond issuance costs are not capitalized at the fund level.		201,491
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.		1,040,222
	Net assets of governmental activities (Exhibit A-1)	$	46,848,946

Waco Independent School District

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

For the Year Ended August 31, 2009

Data Control Codes		10 General Fund	24 National Breakfast & Lunch Fund	50 Debt Service Fund	60 Capital Projects 2008 Fund	Other Governmental Funds	98 Total Governmental Funds
	REVENUES						
5700	Local and intermediate sources	$ 40,728,273	800,672	11,999,063	3,610,013	1,640,653	58,778,674
5800	State program revenues	66,910,358	69,846	1,959,478	-	3,651,816	72,591,498
5900	Federal program revenues	731,189	7,298,943	-	-	16,816,651	24,846,783
5020	Total revenues	108,369,820	8,169,461	13,958,541	3,610,013	22,109,120	156,216,955
	EXPENDITURES						
	Current:						
6011	Instruction	57,941,584	-	-	-	13,998,991	71,940,575
6012	Instructional resources and media services	1,120,167	-	-	-	91,487	1,211,654
6013	Curriculum and instructional staff development	1,190,001	-	-	-	4,028,031	5,218,032
6021	Instructional leadership	1,971,386	-	-	-	481,369	2,452,755
6023	School leadership	8,066,023	-	-	-	327,082	8,393,105
6031	Guidance, counseling and evaluation services	3,363,787	-	-	-	828,791	4,192,578
6032	Social work services	778,336	-	-	-	93,376	871,712
6033	Health services	1,075,374	-	-	-	2,006	1,077,380
6034	Student transportation services	2,650,571	-	-	-	15,571	2,666,142
6035	Food services	-	7,739,371	-	-	470,769	8,210,140
6036	Cocurricular/extracurricular activities	3,387,903	-	-	-	8,940	3,396,843
6041	General administration	3,378,706	-	-	-	7,087	3,385,793
6051	Plant maintenance and operations	13,985,256	316,906	-	-	33,406	14,335,568
6052	Security and monitoring services	1,741,539	-	-	72,295	40,887	1,854,721
6053	Data processing services	2,232,823	-	-	-	-	2,232,823
6061	Community services	1,136,349	-	-	-	1,612,895	2,749,244
6093	Payments to fiscal agent/member districts of shared services arrangements	131,500	-	-	-	68,432	199,932
6095	Payments to Juvenile Justice Alternative Education Program	602,096	-	-	-	-	602,096
6097	Payments to tax increment zone	1,660,672	-	426,800	-	-	2,087,472
6099	Other intergovernmental charges	625,138	-	-	-	-	625,138
	Debt service:						
6071	Principal	620,000	-	4,545,000	-	-	5,165,000
6072	Interest	346,769	-	8,487,842	-	-	8,834,611
6073	Bond issuance cost and fees	1,250	-	3,172	-	-	4,422
	Capital outlay:						
6081	Facilities acquisition and construction	-	-	-	26,289,791	-	26,289,791
6030	Total expenditures	108,007,230	8,056,277	13,462,814	26,362,086	22,109,120	177,997,527
1100	Excess (deficiency) of revenues over (under) expenditures	362,590	113,184	495,727	(22,752,073)	-	(21,780,572)
	OTHER FINANCING SOURCES (USES)						
7911	Bonds issued	-	-	642,407	44,857,593	-	45,500,000
7912	Sale of real and personal property	115,000	-	-	-	-	115,000
7916	Premium on bonds issued	-	-	-	1,571,739	-	1,571,739
7949	Insurance Recovery	11,023	-	-	-	-	11,023
	Total other financing sources (uses)	126,023	-	642,407	46,429,332	-	47,197,762
1200	Net change in fund balances	488,613	113,184	1,138,134	23,677,259	-	25,417,190
0100	Fund balances, beginning	25,720,321	343,932	2,047,841	126,635,946	-	154,748,040
3000	Fund balances, ending	$ 26,208,934	457,116	3,185,975	150,313,205	-	180,165,230

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, 2009

Net changes in fund balances - total governmental funds (Exhibit C-3)	$	25,417,190
Amounts reported for governmental activities in the statement of activities (Exhibit B-1) are different because:		
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.		160,562
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2009 capital outlays and debt principal payments is to increase net assets.		32,531,083
Proceeds from the issuance of long-term debt is reported as an other financing source in the governmental funds. In the government-wide financial statements, proceeds are treated as an increase in long-term liabilities.		(47,071,739)
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.		1,371,492
Depreciation is not recognized as an expense in governmental funds since It does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net assets.		(4,092,354)
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.		(99,338)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue and adjusting current year revenue to show the revenue earned from the current year's tax levy. The net effect of these reclassifications and recognitions is to decrease net assets.		(920,038)
Changes in net assets of governmental activities (Exhibit B-1)		7,296,858

Waco Independent School District

Statement of Net Assets
Proprietary Fund

August 31, 2009

	Governmental Activities
	Internal Service Fund
ASSETS	
Current assets:	
Due from other funds	$ 1,225,888
Total assets	1,225,888
LIABILITIES	
Current liabilities:	
Accounts payable	63,431
Accrued expenses	785,602
Total liabilities	849,033
NET ASSETS	
Unrestricted net assets	376,855
Total net assets	$ 376,855

Waco Independent School District

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

Year Ended August 31, 2009

	Governmental Activities
	Internal Service Fund
Operating revenues:	
Charges for services	$ 576,654
Total operating revenues	576,654
Operating expenses:	
Professional and contracted services	96,067
Claims expense	320,025
Total operating expenses	416,092
Operating gain	160,562
Change in Net Assets	160,562
Total net assets, beginning	216,293
Total net assets, ending	$ 376,855

Waco Independent School District

Statement of Cash Flows
Proprietary Fund

For the Year Ended August 31, 2009

	Governmental Activities
	Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from assessments - other funds	$ 576,654
Cash payments for insurance claims	(320,025)
Cash payments for other operating expenses	(96,067)
Net cash provided by operating activities	160,562
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 gain	$ 160,562
Effects of increases and decreases in assets and liabilities:	
Increase in due from other funds	(120,066)
Increase in accounts payable	30,244
Decrease in accrued expenses	(70,740)
Net cash provided by operating activities	$ -

Waco Independent School District

Statement of Fiduciary Net Assets
Fiduciary Funds

August 31, 2009

	Private Purpose Trust Fund	Agency Fund
ASSETS		
Cash and cash equivalents	$ 13,793	77,140
Due from other funds	273	311,500
Total assets	14,066	388,640
LIABILITIES		
Accounts payable	-	29,817
Due to student groups	-	358,823
Total liabilities	-	388,640
NET ASSETS		
Restricted for scholarships	14,066	
Total net assets	14,066	

Waco Independent School District

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds

For the Year Ended August 31, 2009

	Private Purpose Trust Fund
ADDITIONS	
Contributions:	
Interest on investments	$ 439
Total contributions	439
DEDUCTIONS	
Scholarships awarded	-
Total deductions	-
Change in net assets	439
Net assets, beginning	13,627
Net assets, ending	$ 14,066

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 other authoritative sources identified in ***Statement on Auditing Standards No. 69*** of the American Institute of Certified Public Accountants; 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.

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

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

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

The government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting, as do the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

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

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

The Proprietary Fund Types and Fiduciary Funds are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. The District applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless these pronouncements conflict or contradict GASB pronouncements. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the fund Statement of Net Assets. The fund equity is segregated into invested in capital assets net of related debt, restricted net assets, and unrestricted net assets. Agency funds utilize the accrual basis of accounting but do not have a measurement focus as they report only assets and liabilities.

D. Fund Accounting

The District's accounts are organized on the basis of 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:

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

Fiduciary Funds:

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

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

E. Other Accounting Policies

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

2. Investments -- Investments are stated at fair value, except for money market and participating interest-earning investment contracts that mature within one year of the date of their acquisition and nonparticipating investment contracts that are stated at cost. The District intends, and is financially able; to hold temporarily impaired agency obligations until maturity. Accordingly, the District reports the investment at its amortized cost, even though that amount temporarily exceeds the investment's net realizable value. The District held no such investments at August 31, 2009.

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

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 insure accuracy in building a statewide data base for policy development and funding plans.

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:

Capital Assets	Historic Cost	Accumulated Depreciation	Net Value at August 31, 2009	Change in Net Assets
Land	$ 9,266,355	-	9,266,355	
Buildings and improvements	137,100,697	87,081,287	50,019,410	
Furniture and equipment	16,135,192	8,809,999	7,325,193	
Construction in progress	19,254,144	-	19,254,144	85,865,102

Long-term Liabilities	Payable at August 31, 2009	
Bonds payable	216,169,993	
Add:		
Premium on issuance	5,115,273	
Accumulated accretion on capital appreciation bonds	435,488	
Less:		
Deferred charges on refunding	(1,500,746)	
Accrued interest payable	579,946	(220,799,954)
Net adjustment to net assets		$ (134,934,852)

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:

	Amount	Adjustments to Changes in Net Assets	Adjustments to Net Assets
Current Year Capital Outlay			
Land	$ 4,719,912		
Buildings and improvements	2,871,615		
Furniture and equipment	2,444,857		
Construction in progress	17,329,699		
Total capital outlay	27,366,083	27,366,083	27,366,083
Debt Principal Payments			
General obligation bonds	4,545,000		
Maintenance tax notes	430,000		
Capital lease payments	190,000		
Total principal payments	5,165,000	5,165,000	5,165,000
Total adjustment to net assets		$ 32,531,083	32,531,083

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 including:
   - $928,059 of designated fund balances was re-appropriated to complete previously approved projects;
   - $524,728 of additional revenue from enrollment increases to cover increased costs;
   - $68,856 for in additional E-rate revenue was appropriated for funded projects;
   - $115,000 received from the sale of buses to purchase additional buses;
   - $281,098 of unreserved, undesignated fund balance was appropriated to fund cleanup costs and computer replacement necessitated by fire damage; and
   - $225,000 of additional revenue in child nutrition programs to fund related expenditures.

A. Budgetary Data (continued)

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 J4 and J5. 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 insure 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, 2009.

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 on the date of the highest combined deposit during 2009:

   a. Depository: JPMorgan Chase Bank, N.A. in Waco, Texas

   b. The market value of securities pledged as of the date of the highest combined balance on deposit was $52,618,273.

   c. The highest combined balance of cash, savings and time deposit accounts amounted to $41,020,211 and occurred on August 27, 2009.

   d. Total amount of FDIC coverage at the time of largest combined balance was $250,000.

A. Deposits and Investments (continued)

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

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, 2009, 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	$ 35,754,357	$ 35,677,217	$ 77,140
Cash equivalents:			
Certificates of deposit	70,623,897	70,610,104	13,793
Money market accounts	32,217	32,217	-
Public funds investment pools	81,707,522	81,707,522	-
Total cash equivalents	152,363,636	152,349,843	13,793
Total cash and cash equivalents	188,117,993	188,027,060	90,933
Investments	-	-	-
Total deposits and investments	$ 188,117,993	$ 188,027,060	$ 90,933

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.

Certificates of Deposit – The District has entered into an agreement with SWS Financial Services, which will assist 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 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.

A. Deposits and Investments (continued)

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

Lone Star -- Lone Star is a member-owned, member-governed public funds investment pool offering various funds. 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 that is 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 will invest 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 that is administered by Public Financial Management, Inc. TexasTerm is managed by a five-member board comprised of government officials or employees. TexasTerm markets the pool under "TexasDAILY Fund" which will invest only in authorized investments under the Public Funds Investment Act with weighted average maturities which can not exceed 60 days. The "Texas DAILY Fund" operates in a manner consistent with the SEC's Rule 2a-7 of the Investment Company Act of 1940. The "Texas DAILY Fund" uses amortized cost rather than market value to report net assets to compute share prices.

A. Deposits and Investments (continued)

2. 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 AAAf and Lone Star is rated AAAf/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.

Deposits and Investments (continued)

2. 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	8,522,170	347
Community Bank & Trust	4,192,130	347
Compass Bank	16,250,000	416
Fidelity Bank of Texas	4,186,324	347
SWS Financial Services (CDARS)	37,459,480	181
Fiduciary Funds	13,793	986
Money market accounts	32,217	41
Public funds investment pools:		
Lone Star Investment Pool (Lone Star)	47,655,647	52
MBIA Municipal Investors Service Corporation (MBIA)	82,415	29
Texas Local Government Investment Pool (TexPool)	11,996,100	44
Texas Short Term Asset Reserve Fund (TexStar)	1,173,054	49
TexasTERM Local Government Investment Pool (TexasDAILY)	20,800,306	57
Total deposits and investments	$ 152,363,636	
Portfolio weighted average maturity		155
Portfolio weighted average maturity excluding capital projects funds		63

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, 2008, on which the 2008 levy was based, was $4,014,026,127. The District's maintenance and operations rate levied for 2008 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 2008 was $0.31910 per $100 of valuation.

C. Delinquent Taxes Receivable

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

D. Interfund Balances and Transfers

Interfund balances result from the time lag between the dates that reimbursable expenditures occur and payments between funds are made. Interfund balances at August 31, 2009, consisted of the following amounts:

Funds	Receivable	Payable
General fund	$ 4,208,955	2,516,586
National School Breakfast and Lunch fund	120,008	-
Debt service fund	500,365	-
Capital projects fund, series 2008	-	1,008,955
Other non-major governmental funds	358,551	3,200,000
Internal service fund	1,225,888	-
Private purpose trust fund	274	-
Agency funds	311,500	-
	$ 6,725,541	6,725,541

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, 2009 consisted of the following:

	General Fund	National School Lunch and Breakfast Fund	Debt Service Fund	Other Governmental Funds	Total
Unavailable:					
Delinquent property taxes	$ 865,291	-	174,931	-	1,040,222
Unearned:					
State revenue	-	-	19,757	-	19,757
Grant draw downs received prior to meeting all eligibility requirements:					
USDA Commodities	-	38,302	-	-	38,302
Other federal programs	-	-	-	8,143	8,143
State programs:					
Professional Staff Development	-	-	-	2,269	2,269
Early Childhood Summer (LEP) Program	-	-	-	7,648	7,648
Advanced Placement Incentives	-	-	-	28,631	28,631
Technology Allotment	-	-	-	17,453	17,453
School Leadership Pilot	-	-	-	5,229	5,229
TWC Apprenticeship	-	-	-	26,931	26,931
Texas Ready to Read	-	-	-	6,348	6,348
Challenge Academy	-	-	-	25,773	25,773
Day School for the Deaf	-	-	-	127,695	127,695
Local grants	-	-	-	182,994	182,994
	$ 865,291	38,302	194,688	439,114	1,537,395

F. Capital Asset Activity

Capital asset activity for the District for the year ended August 31, 2009, was as follows:

	Balance September 1, 2008	Additions	Deletions	Reclassifications	Balance August 31, 2009
Capital assets, not being depreciated:					
Land	$ 4,546,443	4,719,912	-	-	9,266,355
Construction in progress	1,924,445	17,329,699	-	-	19,254,144
Total capital assets, not being depreciated	6,470,888	22,049,611	-	-	28,520,499
Capital assets, being depreciated:					
Buildings and improvements	136,037,562	2,871,615	(1,808,480)	-	137,100,697
Furniture, equipment and vehicles	13,818,060	2,444,857	(127,725)	-	16,135,192
Total capital assets, being depreciated	149,855,622	5,316,472	(1,936,205)	-	153,235,889
Less accumulated depreciation for:					
Buildings and improvements	85,856,043	3,021,665	(1,796,421)	-	87,081,287
Furniture, equipment and vehicles	7,779,756	1,070,689	(40,446)	-	8,809,999
Total accumulated depreciation	93,635,799	4,092,354	(1,836,867)	-	95,891,286
Total capital assets, being depreciated, net	56,219,823	1,224,118	(99,338)	-	57,344,603
Governmental activities capital assets, net	$ 62,690,711	23,273,729	(99,338)	-	85,865,102

F. Capital Asset Activity (continued)

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

Function	Description	Amount
11	Instruction	$ 2,236,634
12	Instructional resources and media services	71,940
13	Curriculum and instructional staff development	2,949
21	Instructional leadership	11,343
23	School leadership	50,176
31	Guidance, counseling and evaluation services	13,743
33	Health services	15,637
34	Student transportation	554,079
35	Food services	155,959
36	Extracurricular activities	491,967
41	General administration	34,821
51	Plant maintenance and operations	130,343
52	Security and monitoring services	26,436
53	Data processing services	272,158
61	Community services	3,363
81	Facilities acquisition and construction	20,806
Total depreciation expense - governmental activities		$ 4,092,354

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, 2009.

	Balance September 1, 2008	Increases	Decreases	Balance August 31, 2009	Due Within One Year
Bonds payable:					
General obligation bonds	$ 175,834,993	45,500,000	(5,165,000)	216,169,993	6,505,000
Deferred amounts:					
For issuance premiums	3,806,590	1,571,739	(263,056)	5,115,273	-
On refunding	(1,626,603)	-	125,857	(1,500,746)	-
Accumulated accretion	331,373	135,009	(30,894)	435,488	-
Total bonds payable	$ 178,346,353	47,206,748	(5,333,093)	220,220,008	6,505,000

G. Long-Term Debt (continued)

The District issued $45,500,000 in unlimited tax school building to provide resources to construct, improve, renovate and equip school buildings in the District. In March, 2009, the Texas Permanent School Fund (PSF) Bond Guarantee Program (BGP) was temporarily suspended. As a result, the District was required to obtain bond insurance for this issue. Standard and Poor's rating service raised the District's issuer credit rating one notch to AA1 from A+. Moody's affirmed its underlying rating of A1.

In past years, the District has refunded 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, 2009, $24,820,000 of bonds considered defeased are still outstanding.

General obligation debt at August 31, 2009, is comprised of the following issues:

$4,300,000 Lease revenue bonds, series 1999, due in annual installments of $120,000 to $345,000 through October 2019; interest at 5.50%	$	2,920,000
$21,000,000 Schoolhouse building bonds, series 2000 due in annual installments of $105,000 to $1,035,000 through August, 2010; interest at 5.50% to 5.75%		1,035,000
$18,500,000 Schoolhouse building bonds, series 2001 due in annual installments of $275,000 to $2,000,000 through August, 2022; interest at 4.10% to 5.50%		13,530,000
$14,325,000 Unlimited tax refunding bonds, series 2002 due in annual installments of $730,000 to $2,360,000 through February, 2010; interest at 3.00% to 5.25%		730,000
$14,234,993 Unlimited tax refunding bonds, series 2004 due in annual installments of $155,000 to $1,830,000 through February, 2020; interest at 2.00% to 5.00%		13,289,993
$4,750,000 Maintenance tax notes, series 2006 due in annual installments of $365,000 to $570,000 through August, 2016; interest at 4.25% to 5.00%		3,545,000
$4,695,000 Unlimited tax refunding bonds, series 2006 due in annual installments of $35,000 to $2,025,000 through August, 2022; interest at 4.00%		4,540,000
$132,670,000 Unlimited tax school building and refunding bonds, series 2008 due in annual installments of $400,000 to $5,380,000 through August, 2030; interest at 4.00% to 5.25%		131,080,000
$45,500,000 Unlimited tax school building bonds, series 2009 due in annual installments of $10,000 to $2,990,000 through August, 2038; interest at 3.00% to 5.05%		45,500,000
	$	216,169,993

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
2010	$ 5,860,000	$ 10,132,705	$ 15,992,705
2011	4,850,075	10,637,175	15,487,250
2012	4,919,918	10,524,458	15,444,376
2013	6,030,000	9,422,745	15,452,745
2014	5,675,000	9,288,658	14,963,658
2015-2019	31,545,000	42,746,421	74,291,421
2020-2024	30,610,000	38,714,077	69,324,077
2025-2029	33,770,000	27,117,126	60,887,126
2030-2034	43,365,000	17,524,700	60,889,700
2035-2038	43,175,000	5,528,500	48,703,500
	$ 209,799,993	$ 181,636,565	$ 391,436,558
Less interest accretion in future years	3,384,899		
Total prinicipal due at August 31, 2009	$ 206,415,094		

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, 2009.

Summary information for the capital appreciation bonds is as follows:

Series	Original Amount Outstanding	Accreted Value August 31, 2009
Unlimited Tax Refunding Bonds, Series 2004	$ 1,967,517	2,351,838
Unlimited Tax Refunding Bonds, Series 2006	422,085	473,252
Unlimited Tax School Building Bonds, Series 2009	3,355,000	3,355,000
Total	$ 5,744,602	$ 6,180,090

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
2010	$ 645,000	$ 318,100	$ 963,100
2011	675,000	287,913	962,913
2012	705,000	256,326	961,326
2013	740,000	223,200	963,200
2014	775,000	188,401	963,401
2015-2019	2,580,000	389,202	2,969,202
2020	345,000	9,488	354,488
Totals	$ 6,465,000	$ 1,672,630	$ 8,137,630

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 2008, 2007 and 2006, a state contribution rate of 6.4% for fiscal year 2009, 6.58% for fiscal year 2008 and 6.0% for fiscal year 2007. 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, 2009	Year Ended August 31, 2008	Year Ended August 31, 2007
State TRS on-behalf contributions	$ 3,577,478	$ 3,553,206	$ 3,420,937
District contributions for above statutory minimum	885,164	734,577	554,434
Total	$ 4,462,642	$ 4,287,783	$ 3,975,371

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

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 2009, 2008, and 2007. 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 2009, 2008, and 2007 are as follows:

	Year Ended August 31, 2009	Year Ended August 31, 2008	Year Ended August 31, 2007
State TRS on-behalf contributions	$ 307,440	$ 515,729	$ 437,887
Active member's contributions	529,881	510,289	472,167
District contributions to TRS Care	543,506	431,780	399,519
Total	$ 1,380,827	$ 1,457,798	$ 1,309,573

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 $167,958, $163,514, and $168,613 for fiscal years 2009, 2008, and 2007, respectively. Revenue and expenditures equal to the amount paid by the federal government were recognized during the 2009 and 2008 fiscal 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, 2009, 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	$ 1,233,400	$ -	$ -	$ 1,233,400
Special Revenue	358,964	3,234,431	35,160	3,628,555
Debt Service	428,948	-	-	428,948
Total	$ 2,021,312	$ 3,234,431	$ 35,160	$ 5,290,903

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	$ 39,004,017	$ -	$ 11,800,843	$ -	$ -	$ 50,804,860
Food sales	-	800,442	-	-	-	800,442
Investment income	386,127	230	185,193	3,610,013	3,411	4,184,974
Extracurricular activities	643,996	-	-		-	643,996
Tuition and fees	407,635	-	-		-	407,635
SSA revenue from member districts	68,432	-	-		1,228,841	1,297,273
Other	218,066	-	-		408,401	626,467
	$ 40,728,273	$ 800,672	$ 11,986,036	$ 3,610,013	$ 1,640,653	$ 58,765,647

L. Economic Dependency

During the year ended August 31, 2009, the District received 46% of its revenues from the State of Texas and 16% 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, 2009, 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, 2009, the District was party to construction contracts totaling approximately $97.8 million of which $13.4 million had been incurred.

3. Litigation -- The District is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the District's financial position, results of operations, or liquidity.

4. Other Commitments and Contingencies – On July 27, 2009, fire damage, resulting from renovations activity, was sustained to the vocational building at A.J. Moore Academy. The fire partially destroyed the roof and damaged brickwork and components of the structural steel. The insurance adjuster estimated replacement cost of the building at $1,015,638. The District obtained an estimate from an independent contractor of $1,683,700. Furniture and equipment damages are estimated at $300,000. The District has decided to utilize funds from insurance recovery along with bond savings to completely renovate the building. Additional funds in the amount of $1.7 million have been appropriated for this purpose. Preliminary insurance recovery in the amount of $736,124 was received in November, 2009. This amount represents the actual cash value estimate of replacement cost to which the District is entitled prior to the completion of repairs. Final settlement will occur after renovations have been completed and will include recovery of extra expenses incurred as a result of the damage.

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 on the following page:

	Student Days Attended		Fund 446 McLennan Co. Challenge Academy
Axtell I.S.D.	27	$	2,267
Bosqueville I.S.D.	61		5,121
Bruceville-Eddy I.S.D.	340		28,542
China Spring I.S.D.	68		5,708
Connally I.S.D.	305		25,604
Gholson I.S.D.	9		756
La Vega I.S.D.	918		77,063
Lorena I.S.D.	105		8,814
Bill Logue Juvenile Detention Center	1,029		86,381
Mart I.S.D.	12		1,007
McGregor I.S.D.	173		14,523
Methodist Home	178		14,943
Midway I.S.D.	1,104		92,677
Moody I.S.D.	69		5,792
Riesel I.S.D.	6		504
Robinson I.S.D.	775		65,059
Valley Mills I.S.D.	46		3,862
Waco I.S.D.	8,483		712,119
West I.S.D.	206		17,293
	13,914	$	1,168,035

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:

N. Shared Services Arrangements (continued)

Member	Number of Students	Fund 458 Local Funds Day School for the Deaf
Axtell I.S.D.	1	$ 9,533
Connally I.S.D.	1	9,533
Hill County	3	28,598
Heart of Texas Cooperative	2	19,065
La Vega I.S.D.	1	9,533
Midway I.S.D.	3	28,598
Rio Brazos Cooperative	3	28,598
Waco I.S.D.	13	123,921
Total Expenditures	27	$ 257,379

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 2008-09 plan year, an excess coverage insurance policy covers aggregate claims in excess of $761,206. Settlements for the 2005 plan year have exceeded the aggregate liability for that year by $98,965. Changes in the balances of claims liabilities during the past year are as follows:

Unpaid claims, beginning of year	$ 889,529
Incurred claims (including IBNR)	315,446
Claim payments	(357,942)
Unpaid claims, end of year	$ 847,033

A. 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 and 2008 Series bonds. As of August 31, 2009 there was no arbitrage rebate liability on either issue.

Required Supplementary Information

Waco Independent School District

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

For the Year Ended August 31, 2009

Data Control Codes		Budgeted Amounts Original	Budgeted Amounts Final	Actual	Variances With Final Budget
	REVENUES				
5700	Local and intermediate sources	$ 41,389,388	40,683,269	40,728,273	45,004
5800	State program revenues	66,427,116	67,675,164	66,910,358	(764,806)
5900	Federal program revenues	681,000	749,856	731,189	(18,667)
5020	Total revenues	108,497,504	109,108,289	108,369,820	(738,469)
	EXPENDITURES				
	Current:				
6011	Instruction	57,815,072	58,981,293	57,941,584	1,039,709
6012	Instructional resources and media services	1,095,844	1,140,516	1,120,167	20,349
6013	Curriculum and instructional staff development	1,094,873	1,252,898	1,190,001	62,897
6021	Instructional leadership	2,002,365	2,002,127	1,971,386	30,741
6023	School leadership	8,166,200	8,149,599	8,066,023	83,576
6031	Guidance, counseling and evaluation services	3,467,381	3,414,912	3,363,787	51,125
6032	Social work services	789,050	793,776	778,336	15,440
6033	Health services	1,117,495	1,087,529	1,075,374	12,155
6034	Student transportation services	2,647,100	3,060,057	2,650,571	409,486
6036	Cocurricular/extracurricular activities	3,554,961	3,581,042	3,387,903	193,139
6041	General administration	3,170,854	3,473,145	3,378,706	94,439
6051	Plant maintenance and operations	14,993,643	15,202,291	13,985,256	1,217,035
6052	Security and monitoring services	1,660,839	1,756,691	1,741,539	15,152
6053	Data processing services	2,120,795	2,265,801	2,232,823	32,978
6061	Community services	1,170,991	1,168,774	1,136,349	32,425
6093	Payments to fiscal agent/member districts of shared services arrangements	140,000	140,000	131,500	8,500
6095	Payments to Juvenile Justice Alternative Education Program	640,622	615,622	602,096	13,526
6097	Payments to tax increment fund	1,587,974	1,667,974	1,660,672	7,302
6099	Other intergovernmental charges	670,000	629,650	625,138	4,512
	Debt service:				
6071	Debt service - principal on long term debt	620,000	620,000	620,000	-
6072	Debt service - interest on long term debt	348,100	348,100	346,769	1,331
6073	Debt service - bond issuance cost and fees	6,000	6,000	1,250	4,750
	Capital outlay:				
6081	Facilities acquisition and construction	-	-	-	-
6030	Total expenditures	108,880,159	111,357,797	108,007,230	3,350,567
1100	Excess (deficiency) of revenues over (under) expenditures	(382,655)	(2,249,508)	362,590	(2,612,098)
	OTHER FINANCING SOURCES (USES)				
7912	Sale of real and personal property	-	115,000	115,000	-
7949	Insurance Recovery	-	-	11,023	11,023
	Total other financing sources (uses)	-	115,000	126,023	11,023
1200	Net change in fund balances	(382,655)	(2,134,508)	488,613	2,623,121
0100	Fund balances, beginning	21,826,146	25,720,321	25,720,321	-
3000	Fund balances, ending	$ 21,443,491	23,585,813	26,208,934	2,623,121

WACO INDEPENDENT SCHOOL DISTRICT

NOTES TO THE SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL

GENERAL FUND, NATIONAL SCHOOL BREAKFAST AND LUNCH FUND, AND DEBT SERVICE FUND

YEAR ENDED AUGUST 31, 2009

A. 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, 2009

Supplemental Information

Waco Independent School District
Schedule of Delinquent Taxes Receivable
For the Year Ended August 31, 2009

Last Ten Years Ended August 31,	1 Tax Rates Maintenance & Operation	2 Tax Rates Debt Service	3 Assessed Appraised Value For School Tax Purposes
2000 and prior years	Various	Various	Various
2001	1.44120	0.14000	2,191,010,182
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 (school year under audit)	1.04005	0.31910	3,725,943,682
100 Totals			

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

Collections in 2008-09 from the McLennan County Education District

10	20	31	32	40	50
Balance September 1, 2007	Current Year's Total Levy	Total Collections: Maintenance & Operations	Total Collections: Debt Service	Entire Year's Adjustments	Balance August 31, 2008
461,734	-	3,427	378	(81,563)	376,366
93,037	-	1,597	155	(1,955)	89,330
102,003	-	2,855	244	(2,831)	96,073
144,673	-	6,234	541	(2,507)	135,391
168,746	-	15,109	1,274	(7,456)	144,907
189,892	-	22,205	1,853	(6,149)	159,685
270,039	-	38,924	3,191	(17,578)	210,346
455,461	-	133,997	12,368	(20,241)	288,855
954,875	-	407,149	47,759	(101,248)	398,719
-	50,641,126	37,766,848	11,587,293	(99,681)	1,187,304
2,840,459	50,641,126	38,398,345	11,655,056	(341,209)	3,086,976
79,297	2,014,901	1,398,879	427,435	(155,126)	112,758
		1,021			

Waco Independent School District

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

For the Year Ended August 31, 2009

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	$ 83	-	267,307	1,938,717	-	-	2,206,107
6149	Leave for separating employees in fnc 41, 53	-	-	-	-	-	-	-
6149	Leave for separating employees not in fnc 41, 53							
6211	Legal services	27,523	-	94,430	-	17,565	-	139,518
6212	Audit services	-	-	-	37,000	-	-	37,000
6213	Tax appraisal and collection	-	740,897	-	-	-	-	740,897
6219	Other professional services	-	-	-	1,000	-	-	1,000
6230	Education Service Centers	70	-	-	7,297	-	-	7,367
6240	Contracted maintenance and repairs	-	-	-	-	39,015	-	39,015
6250	Utilities	-	-	-	-	1,686	-	1,686
6260	Rentals	-	-	3,925	29,973	-	-	33,898
6290	Miscellaneous contracted services	2,482	-	1,453	174,440	-	-	178,375
6320	Textbooks and reading materials	562	-	1,094	2,411	-	-	4,067
63XX	Other supplies and materials	1,066	-	4,234	295,897	-	-	301,197
6410	Travel and stipends	10,275	-	10,612	30,286	-	-	51,173
6420	Insurance and bonding costs	-	-	-	88,890	-	-	88,890
6430	Election costs	48,648	-	-	-	-	-	48,648
6490	Miscellaneous operating costs	23,170	-	24,764	64,088	-	-	112,022
6600	Capital outlay	-	-	-	-	-	20,071	20,071
6000	Total	$ 113,879	740,897	407,819	2,669,999	58,266	20,071	4,010,931

Total expenditures for General and Special Revenue Funds			(9) $	138,170,210
Less: deductions of unallowable costs:				
FISCAL YEAR				
Total capital outlay (6600 costs)	(10)	1,211,188		
Total debt and lease (6500 costs)	(11)	968,019		
Plant maintenance (function 51, 6100-6400)	(12)	14,210,187		
Food (function 35, 6341 and 6499)	(13)	3,951,627		
Column 4 (above) - total indirect cost		2,669,999		
Subtotal				23,011,020
Net allowed direct costs			$	115,159,190
CUMULATIVE				
Total cost of buildings before depreciation			(15) $	137,100,697
Historical cost of building over 50 years old			(16) $	26,347,056
Amount of federal money in building cost			(17) $	-
Total cost of furniture and equipment before depreciation			(18) $	16,135,192
Historical cost of furniture and equipment over 16 years old			(19) $	3,043,297
Amount of federal money in furniture and equipment			(20) $	246,156

(8) NOTE A: No function 53 expenditures are included in this report on administrative costs. $625,138 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, 2009

Data Control Code	Explanation	Amount	
1	Total general fund balance as of August 31, 2008 (Exhibit C-1 object 3000 for the general fund only)		$ 26,208,934
2	Total reserved fund balance (from Exhibit C-1 - total of object 3400s for the general fund only)	$ 735,776	
3	Total designated fund balance (from Exhibit C-1 - total of object 3500s for the general fund only)	586,236	
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 one month's average cash disbursements during the regular school session (9/1/06 - 5/31/07)	13,722,115	
6	Estimate of delayed payments from State sources (58XX) including August payment delays	1,233,400	
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	-	
8	Estimate of delayed payments from federal sources (59XX)	3,593,395	
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	Optimum fund balance and cash flow (lines 2 through 9)		19,870,922
11	Excess (Deficit) undesignated unreserved general fund balance (line 1 minus line 10)		$ 6,338,012

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, 2009, the ratio of undesignated unreserved general fund balance to expenditures was 23.0%. Aniticipating 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

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
National School Breakfast and Lunch Fund

For the Year Ended August 31, 2009

Data Control Codes		Budgeted Amounts Original	Budgeted Amounts Final	Actual	Variances With Final Budget
	REVENUES				
5700	Local and intermediate sources	$ 870,280	870,280	800,672	(69,608)
5800	State program revenues	57,554	57,554	69,846	12,292
5900	Federal program revenues	6,948,383	7,173,383	7,298,943	125,560
5020	Total revenues	7,876,217	8,101,217	8,169,461	68,244
	EXPENDITURES				
	Current:				
6035	Food services	7,337,634	8,041,933	7,739,371	302,562
6051	Plant maintenance and operations	398,660	398,660	316,906	81,754
6030	Total expenditures	7,736,294	8,440,593	8,056,277	384,316
1100	Excess (deficiency) of revenues over (under) expenditures	139,923	(339,376)	113,184	452,560
1200	Net change in fund balances	139,923	(339,376)	113,184	452,560
0100	Fund balances, beginning	536,177	343,932	343,932	-
3000	Fund balances, ending	$ 676,100	4,556	457,116	452,560

Waco Independent School District

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

For the Year Ended August 31, 2009

Data Control Codes		Budgeted Amounts			Variances With Final
		Original	Final	Actual	Budget
	REVENUES				
5700	Local and intermediate sources	$ 11,924,716	11,949,716	11,999,063	49,347
5800	State program revenues	1,792,281	1,792,281	1,959,478	167,197
5020	Total revenues	13,716,997	13,741,997	13,958,541	216,544
	EXPENDITURES				
	Current:				
6097	Payments to tax increment fund	409,339	434,339	426,800	7,539
	Debt service:				
6071	Debt service - principal on long-term debt	4,440,000	4,545,000	4,545,000	-
6072	Debt service - interest on long-term debt	9,278,257	9,172,085	8,487,842	684,243
6073	Debt service - bond issuance cost and fees	3,000	4,172	3,172	1,000
6030	Total expenditures	14,130,596	14,155,596	13,462,814	692,782
1100	Excess (deficiency) of revenues over (under) expenditures	(413,599)	(413,599)	495,727	909,326
	OTHER FINANCING SOURCES (USES)				
7911	Bonds issued	-	-	642,407	642,407
7915	Transfers in	-	-	-	-
7916	Premium on bonds issued	-	-	-	-
7917	Prepaid interest on bonds issued	-	-	-	-
	Total other financing sources (uses)	-	-	642,407	642,407
1200	Net change in fund balances	(413,599)	(413,599)	1,138,134	1,551,733
0100	Fund balances, beginning	2,013,602	2,047,841	2,047,841	-
3000	Fund balances, ending	$ 1,600,003	1,634,242	3,185,975	1,551,733

Overall Compliance, Internal Control and Federal Awards

John R. Pechacek

Certified Public Accountant

P.O. Box 549 • Bellville, Texas 77418-0549 • 979.865.3169 • Fax 979.865.9829

Independent Auditor's Report

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*

Board of Trustees
Waco Independent School District
P.O. Box 27
Waco, Texas 76703-0027

Members of the Board of Trustees:

I have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Waco Independent School District as of and for the year ended August 31, 2009, which collectively comprise the Waco Independent School District's basic financial statements and have issued my report thereon dated January 15, 2010. I conducted my 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 my audit, I considered Waco Independent School District's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the Waco Independent School District's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Waco Independent School District's internal control over financial reporting. A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Waco Independent School District's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Waco Independent School District's financial statements that is more than inconsequential will not be prevented by the Waco Independent School District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Waco Independent School District's internal control.

My consideration of 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 internal control that might be significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I considered to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Waco Independent School District's financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my 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, others within the entity, the Board of Trustees, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

John R. Pechacek, CPA

January 15, 2010

John R. Pechacek

Certified Public Accountant

P.O. Box 549 • Bellville, Texas 77418-0549 • 979.865.3169 • Fax 979.865.9829

Independent Auditor's Report

Report on Compliance with Requirements Applicable
To each Major Program and on Internal Control over Compliance In
Accordance With OMB Circular A-133

Board of Trustees
Waco Independent School District
P.O. Box 27
Waco, Texas 76703-0027

Members of the Board of Trustees:

Compliance

I have audited the compliance of Waco Independent School 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, 2009. Waco Independent School District's major federal programs are identified in the summary of auditor's 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 Waco Independent School District's management. My responsibility is to express an opinion on Waco Independent School District's compliance based on my audit.

I conducted my 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 I 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 Waco Independent School District's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of Waco Independent School District's compliance with those requirements.

In my opinion, Waco Independent School 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, 2009.

Internal Control Over Compliance

The management of Waco Independent School 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 my audit, I considered Waco Independent School 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 my auditing procedures for the purpose of expressing my opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of Waco Independent School District's internal control over compliance.

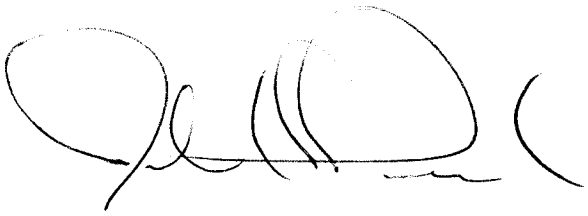
A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

My 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. I did not identify any deficiencies in internal control over compliance that I considered to be material weaknesses.

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

Respectfully submitted,



John R. Pechacek, CPA

January 15, 2010

WACO INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2009

A. Summary of Auditor's Results

1. Financial Statements

Type of auditor's report issued:	Unqualified		
Internal control over financial reporting:			
One or more material weaknesses identified?	____ Yes	X No	
One or more significant deficiencies identified that are not considered to be material weaknesses?	____ Yes	X No	None Reported
Noncompliance material to financial statements noted?	____ Yes	X No	

2. Federal Awards

Internal control over major programs:			
One or more material weaknesses identified?	____ Yes	X No	
One or more significant deficiencies identified that are not considered to be material weaknesses?	____ Yes	X No	None Reported
Type of auditor's report issued on compliance for major programs:	Unqualified		
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	____ Yes	X No	

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.027	IDEA, Part B - Formula
84.367A	ESEA Title II, Part A - Teacher/Principal Training
84.287	ESEA Title IV, Part B - 21st Century Community

Dollar threshold used to distinguish between type A and type B programs:	$300,000		
Auditee qualified as low-risk auditee?	X Yes	____ No	

B. Financial Statement Findings

NONE

C. Federal Award Findings and Questioned Costs

NONE

WACO INDEPENDENT SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED AUGUST 31, 2009

Finding/Recommendation	Current Status	Management's Explanation If Not Implemented
NONE		

Waco Independent School District

Schedule of Expenditures of Federal Awards

Year Ended August 31, 2009

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	$ 1,779,694
National School Lunch Program *2	10.555	71300401	5,121,518
Food Distribution	10.550	161026A	397,731
Total CFDA Number 10.555			5,519,249
Summer Feeding Program	10.559	7561013	468,837
Total Passed Through the State Department of Agriculture			7,767,780
Total U.S. Department of Agriculture			7,767,780
U.S. Department of Defense			
Direct programs:			
Junior Reserve Officer Training Corp	12.000		79,068
Payments in Lieu of Taxes - Flood Control	12.112		743
Total Direct Programs Through the U.S. Department of Defense			79,811
Total U.S. Department of Defense			79,811
Federal Communications Commission			
Direct programs:			
Universal E-Rate	32.000		464,894
Total Direct Programs through the Federal Communications Commission			464,894
Total Federal Communications Commission			464,894
U.S. Department of Education			
Passed Through State Department of Education			
ESEA Title I, Part A - Improving Basic Programs	84.010A	09610101161914	5,891,484
ESEA Title I, Part A - Improving Basic Programs	84.010A	10610101161914	603,876
ESEA Title I, Part A - School Improvement	84.010A	09610104161914002	165,295
ESEA Title I, Part A - School Improvement	84.010A	10610104161914002	870
ESEA Title I, Part A - School Improvement	84.010A	09610104161914003	203,082
ESEA Title I, Part A - School Improvement	84.010A	10610104161914003	159
Total CFDA Number 84.010A			6,864,766
IDEA, Part B - Formula *1	84.027	096600011619146600	3,211,970
IDEA, Part B - Formula *1	84.027	106600011619146600	266,848
SSA - IDEA, Part B - Discretionary (Deaf) *1	84.027	096600021619146673	17,850
SSA - IDEA, Part B - Formula Deaf *1	84.027	096600011619146601	17,150
Total CFDA Number 84.027			3,513,818
Career and Technical - Basic Grant	84.048	09420006161914	199,652
Career and Technical - Basic Grant	84.048	10420006161914	52,317
Total CFDA Number 84.048			251,969

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 - Preschool *1	84.173	096610011619146610	45,940
IDEA, Part B - Preschool *1	84.173	106610011619146610	1,616
Total CFDA Number 84.173			47,556
ESEA, Title IV - Safe and Drug Free Schools	84.186A	09691001161914	70,599
ESEA, Title IV, Part B - 21st Century Community	84.287	086950127110027	1,362,593
ESEA Title II, Part D - Enhancing Ed Thru Technology	84.318	09630001161914	62,217
ESEA Title II, Part D - Enhancing Ed Thru Technology	84.318	10630001161914	5,291
Total CFDA Number 84.318			67,508
Reading First	84.357	086455107110069	1,637,424
ESEA Title III, Part A - English Language Acquisition	84.365A	09671001161914	278,363
ESEA Title III, Part A - English Language Acquisition	84.365A	10671001161914	2,234
Total CFDA Number 84.365A			280,597
ESEA Title II, Part A - Teacher/Principal Training	84.367A	09694501161914	1,211,186
ESEA Title II, Part A - Teacher/Principal Training	84.367A	10694501161914	559,069
Total CFDA Number 84.367A			1,770,255
ESEA Title I, SIP Academy Grant	84.377A	09610701161914002	89,314
ESEA Title I, SIP Academy Grant	84.377A	09610701161914003	150,315
Total CFDA Number 84.377A			239,629
ESEA Title I, Part A - ARRA - Improving Basic Programs	84.389A	10551001161914	66,333
IDEA, Part B, Formula - ARRA	84.391	10554001161914	45,136
Title XIV, State Fiscal Stabilization Fund - ARRA	84.394	10557001161914	242,227
Total Passed Through State Department of Education			16,460,410
Total U.S. Department of Education			16,460,410
U.S. Department of Health and Human Services			
Passed Through State Health and Human Services Commission			
Temporary Assistance for Needy Families	93.558		7,081
Medical Assistance Program	93.778		34,986
Medical Assistance Program	93.778		31,821
Total CFDA Number 93.778			66,807
Total U.S. Department of Health and Human Services			73,888
Total Expenditures of Federal Awards			$ 24,846,783

Total Federal Program Revenues from Schedule C-3 $24,846,783

**1 Clustered programs under OMB Circular A-133*
**2 Clustered programs under OMB Circular A-133*

WACO INDEPENDENT SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED AUGUST 31, 2009

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.