Waco Independent School District

Annual Financial Reports

August 31, 2008

Waco Independent School District
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Introductory Section

Certificate of Board

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

We the undersigned, certify that the attached annual financial and compliance reports of the above named independent school district were reviewed and approved for the year ended August 31, 2008 at a meeting of the Board of Trustees of such independent school district on the 22nd day of January 2009.

Board Secretary

Board President

Financial Section

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, 2008, 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.

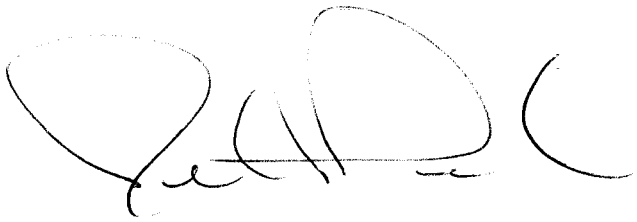
In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Waco Independent School District as of August 31, 2008, and the respective 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 12, 2009, 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 12, 2009

Management’s Discussion and Analysis

Waco Independent School District

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended August 31, 2008

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, 2008. 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.

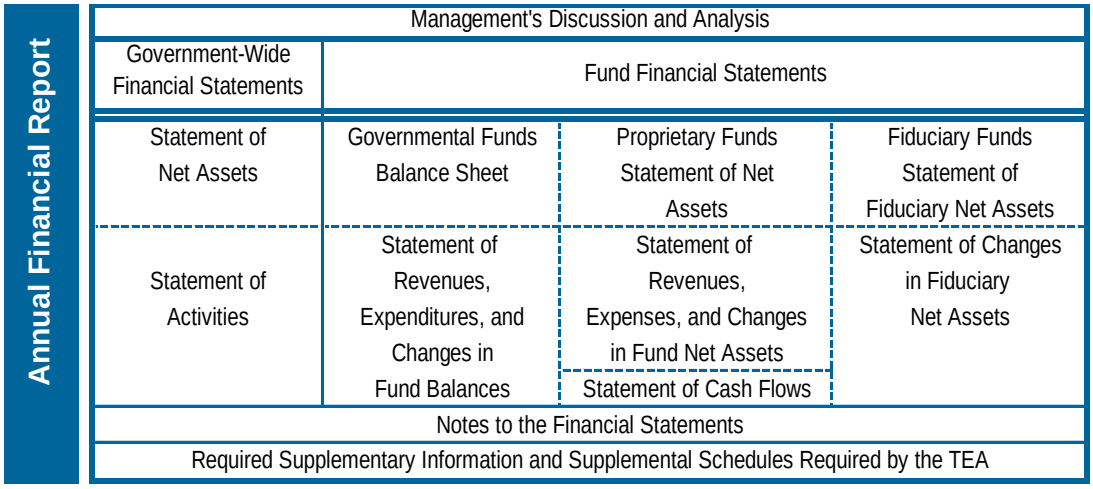
FINANCIAL HIGHLIGHTS

The following highlight changes in the District's financial position at August 31, 2008

- On a government-wide basis, the District's total assets exceeded its liabilities by $39,552,088 (net assets). Of this amount, $11,379,742 is invested in capital assets, net of related debt, $586,645 is restricted for debt service, and the remaining $27,585,701 is unrestricted and may be used to meet the District's ongoing obligations.
- The District's net assets increased by $3,731,181 as a result of the year's activities.
- As of August 31, 2008 the District's governmental funds reported combined ending fund balances of $154,747,930, an increase of $129,346,474 compared with the prior year. $23,869,841 or 15.4% of the combined fund balances is unreserved, undesignated and available for the discrete purposes for which these funds are collected.
- The ending fund balance in the District's general fund was $25,720,211. The unreserved, undesignated portion of $23,869,841 represents 21.9% of its annual operating expenditures. Although the total fund balance increased by $2,677,717 from the prior year, the unreserved, undesignated fund balance increased by $3,176,461 reflecting decreases in reserved and designated funds, in particular, in the funds designated for major facilities repairs and improvements.
- The National School Breakfast and Lunch fund had an ending fund balance of $343,933, an improvement of $41,371 over the prior year's ending fund balance. A similar increase was seen in the debt service fund where the fund balance increased $44,520 to an ending balance of $2,047,841.
- The District issued Unlimited Tax School Building and Refunding bonds in the amount of $132,670,000, refunding the remaining bonds issued in 1998 and providing $127,000,000 for the construction, renovation and equipping of school buildings throughout the District.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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 – not the District as a whole. 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. Traditional users of governmental financial statements will find the fund financial statements presentation more familiar; however the focus is now 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 capital projects fund established for the 2008 bond issue. The general fund, by definition is always considered a major fund. The capital projects fund, series 2008 meets the criteria to be considered as a major fund. 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 funds, including other capital projects 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, campus activity funds and funds held in trust for regional purchasing and UIL activities.

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, 2008 and 2007 are summarized as follows, based on the information included in the government-wide financial statements.

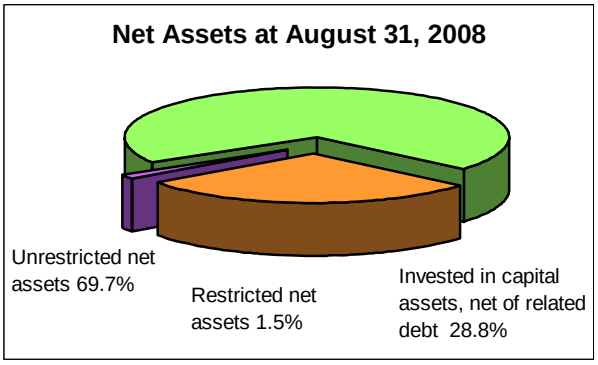
Schedule of Net Assets

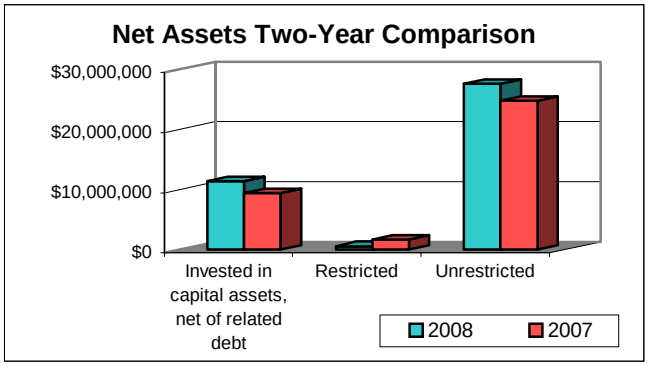
	Governmental Activities		
	2008	2007	% Change
Current and other assets	$ 164,341,397	$ 32,849,406	400.29%
Capital assets	62,690,711	64,054,321	-2.13%
Total assets	227,032,108	96,903,727	134.29%
Current liabilities	14,193,667	10,400,037	36.48%
Long-term liabilities	173,286,353	50,682,783	241.90%
Total liabilities	187,480,020	61,082,820	206.93%
Net assets:			
Invested in capital assets, net of related debt	11,379,742	9,411,559	20.91%
Restricted	586,645	1,676,807	-65.01%
Unrestricted	27,585,701	24,732,541	11.54%
Total net assets	$ 39,552,088	$ 35,820,907	10.42%

The District's total assets exceeded total liabilities by $39,552,088 at August 31, 2008 an increase of $3,731,181 from August 31, 2007. At the end of the fiscal year, 69.7% 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 reserved or designated in the District's fund statements.

Additionally, 28.8% of the District's net assets reflect its investment in capital assets (e.g., land, buildings and improvements, and furniture and equipment), less any outstanding related debt used to acquire those assets. These assets are not available for future spending, therefore, even though the District's investment in capital assets is reported net of related debt, the resources needed to repay this debt must be provided from other sources. The District's investment in capital assets, net of related debt, increased $1,968,183, a result of debt retirements of $5,025,000 coupled with capital asset additions of $3,262,073, offset by annual depreciation expense of $3,859,123. Unexpended proceeds of new debt are excluded in the calculation.

The remaining 1.5% 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.





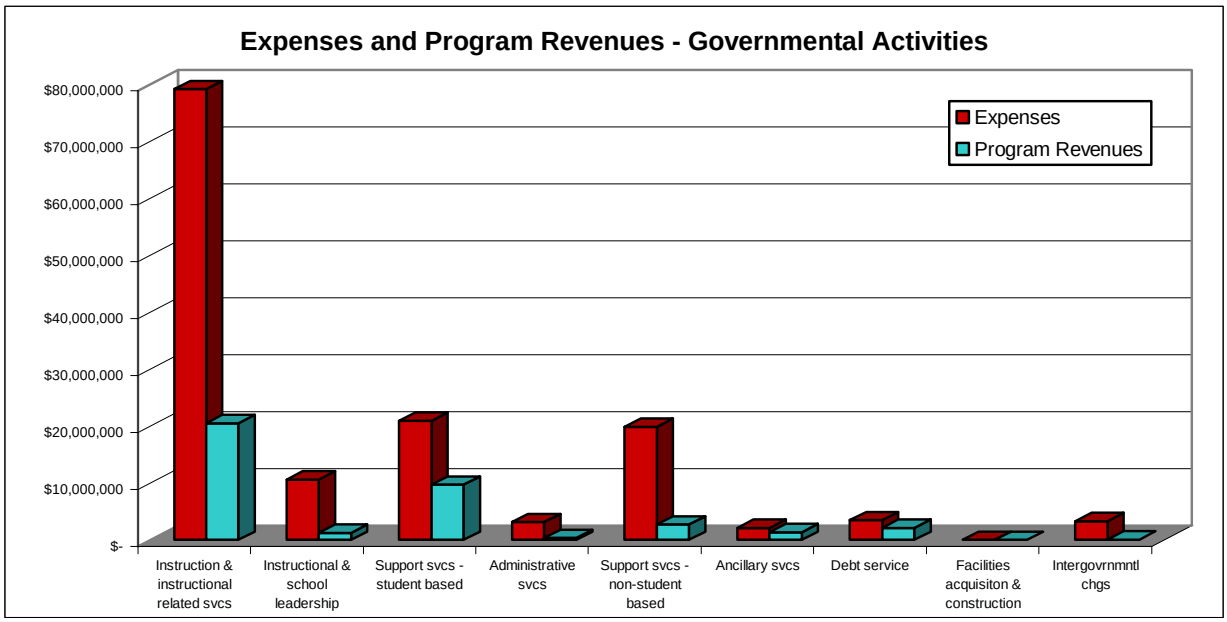
Changes in Net Assets

The following table provides a summary of the District's operations for the year ended August 31, 2008. Governmental activities increased the District's net assets by $3,731,181.

Changes in Net Assets

	Governmental Activities		
	2008	2007	% Change
Revenues:			
Program Revenues:			
Charges for services	$ 3,248,035	$ 3,142,496	3.36%
Operating grants and contributions	34,723,254	33,668,979	3.13%
General Revenues:			
Property taxes	40,746,422	48,244,024	-15.54%
State aid -- formula grants	64,792,250	48,282,331	34.19%
Grants and contributions, not restricted	-	467,602	-100.00%
Investment earnings	1,435,663	1,837,979	-21.89%
Miscellaneous revenue	789,196	843,699	-6.46%
Total revenues	145,734,820	136,487,110	6.78%
Expenses:			
Instruction	73,579,542	68,982,138	6.66%
Instructional resources and media services	1,274,013	1,339,560	-4.89%
Curriculum development and instructional staff development	4,400,174	5,076,698	-13.33%
Instructional leadership	2,471,105	2,432,088	1.60%
School leadership	8,128,499	8,145,058	-0.20%
Guidance, counseling and evaluation services	4,241,210	4,117,738	3.00%
Social work services	861,141	799,060	7.77%
Health services	1,013,621	1,011,283	0.23%
Student transportation	2,846,305	2,461,098	15.65%
Food services	7,987,328	7,022,993	13.73%
Extracurricular activities	3,967,493	3,556,027	11.57%
General administration	3,137,939	3,743,531	-16.18%
Plant maintenance and operations	15,046,951	16,901,175	-10.97%
Security and monitoring services	1,649,371	1,535,183	7.44%
Data processing services	3,173,049	2,802,779	13.21%
Community services	2,087,377	2,327,280	-10.31%
Debt service - interest on long-term debt	3,461,521	2,723,723	27.09%
Debt service - bond issuance costs and fees	7,550	11,399	-33.77%
Facilities Acquisition and construction	541	30,917	-98.25%
Payments to fiscal agents/member districts of shared services arrangements	216,105	214,734	-
Payments to Juvenile Justice Alternative Education program	606,215	569,610	6.43%
Payments to tax increment fund	1,859,983	1,524,057	22.04%
Other intergovernmental charges	596,346	-	-
Total expenses	142,613,379	137,328,129	3.85%
Increase or (decrease) in net assets before transfers, special and extraordinary items	3,121,441	(841,019)	471.15%
Special items -- gain on sale of equipment	609,740	4,500	13449.78%
Increase or (decrease) in net assets	3,731,181	(836,519)	546.04%
Net assets, September 1	35,820,907	36,657,426	-2.28%
Net assets, August 31	$ 39,552,088	$ 35,820,907	10.42%

The total cost of all governmental activities this year was $142,613,379 increasing $5,285,250 over the previous year. Program revenues in the form of charges for service, $3,248,035, and grants and contributions, $34,723,254, are clearly inadequate to support the cost of services with instruction creating the greatest burden on the taxpayer. Consequently, general revenues cover all remaining costs after the program-specific revenues are applied. 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:



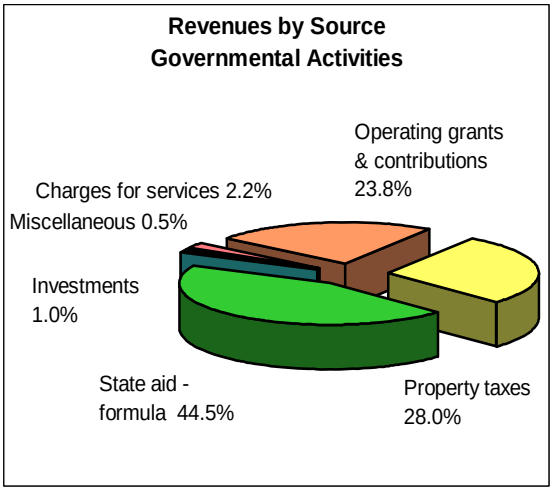
With major changes in State funding formulas to provide local property tax relief, the District's primary source of revenue has shifted from local property tax revenue to State formula funding. State formula grants contributed 44.5% or $64,792,250 of the District's $145,734,820 total revenue. This is up $16,509,919 from 2006-07 and includes a funding adjustment of $1,938,575 for a change in law concerning frozen values of over-65 taxpayers. Three major factors have influenced State formula funding: property valuations, local tax effort and average daily attendance. The District's increasing property values coupled with a declining population have resulted in losses in State funding in recent years. While these factors still impact the District's State program revenue, hold harmless caps in the new system directly offset revenue gains from local property value increases with reductions in State Foundation School funding.

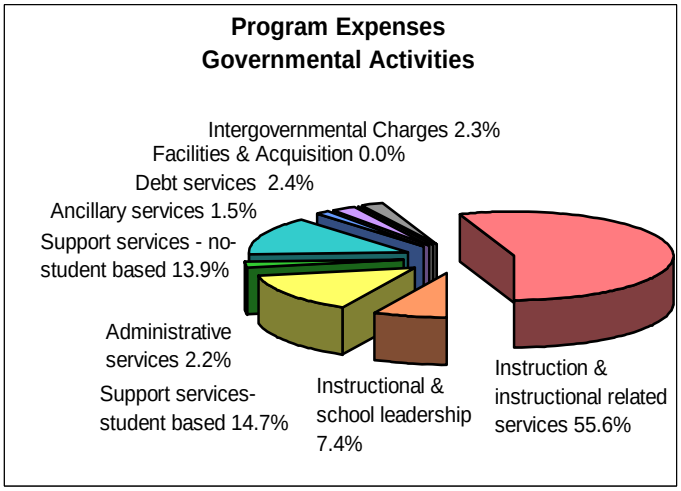
Local property tax revenue contributed an additional $40,746,422 or 28.0% of the total revenue. Property tax revenue decreased $7,497,602 from the prior year. Although property values increased 4.8%, a reduction in the maintenance and operations tax rate of $0.28176, from $1.32181 to $1.04005 per $100 of valuation, resulted in an overall loss in property tax revenue. The debt service rate remained at $0.1220 per $100 of valuation.

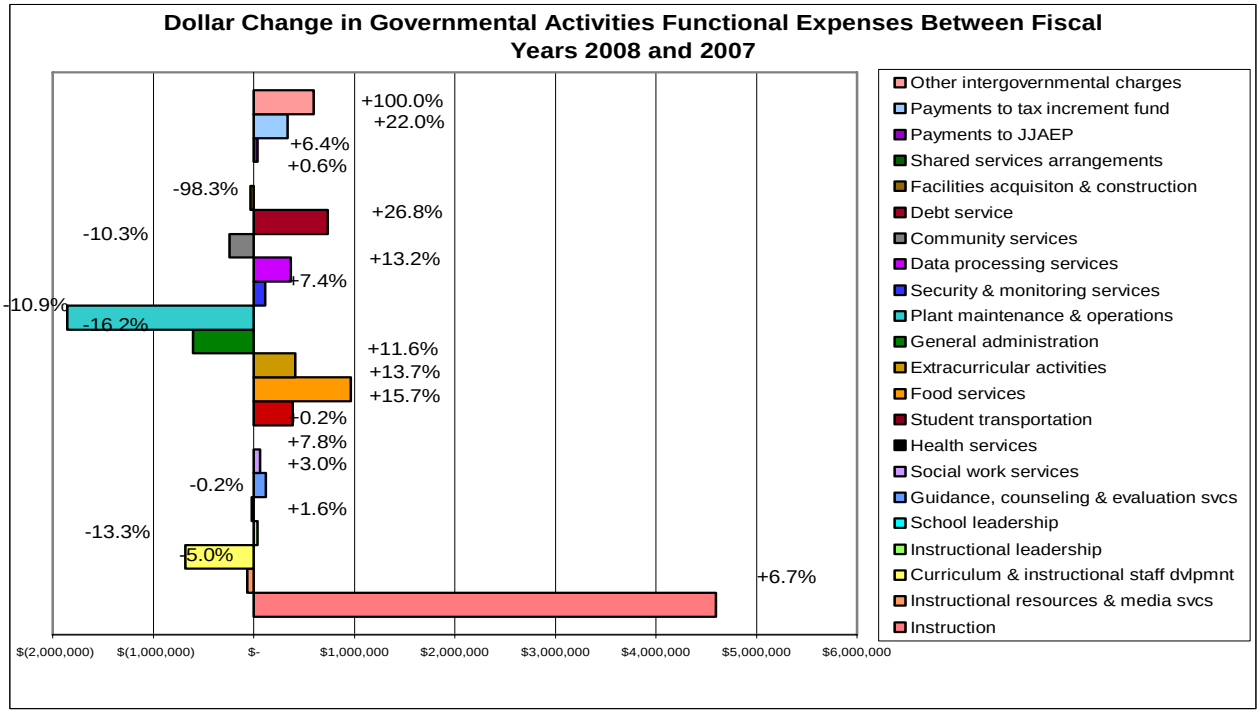
Expenses for governmental activities increased $5,285,250 over the prior year. Contributing to this increase was the compensation package approved in the 2007-08 budget. The package included $2,665,399 in salary increases, providing an average increase to teachers, nurses and librarians of 5.2% and an increase of 3% of the midpoint for other employee groups. The compensation package also included an additional $330,324 in rate increases for group health and retirement contributions. The Board of Trustees designated $401,907 for modifications and accommodations to meet ADA requirements and appropriated another $350,000 to repurchase property previously sold to the Art Center of Waco.

Although State funding formulas held total revenues to prior year's levels, increases in the basic allotment and guaranteed yield factors forced the District to increase appropriations in 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 last 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.







A legislated change in the school calendar which reduced the number of instructional days for the fiscal year ended August 31, 2007, magnified increases in functional categories where salary accruals are most impacted by the school calendar. These functions include instruction; instructional resources and media services; curriculum and instructional staff development; guidance and counseling; health services; student transportation; food services; and extracurricular activities.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Governmental Funds

At the end of the current fiscal year, the Waco Independent School District's governmental funds reported combined ending fund balances of $154,747,930, an increase of $129,346,476 from the previous year. The increase is primarily due to the issuance of $126,405,000 in new general obligation bonds to construct, renovate and equip school buildings throughout the District. Approximately 15.4% 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, 2008, the fund balance for the general fund totaled $25,720,211, increasing $2,677,719 over the prior year. The unreserved portion of the fund balance increased $3,176,461. The disparity in these changes is due to reductions in reserved and designated funds. While the proceeds from sales of buses in the amount of $212,004 were designated for future bus replacements; reserves for encumbrances decreased $178,758, as less purchase orders were outstanding at August 31, 2008, and funds designated for special projects decreased $519,771, as identified projects were completed.

As a measure of the general fund's liquidity, it may be useful to compare both the unreserved fund balance and the total fund balance to the total fund expenditures. The unreserved fund balance represents 21.9% of total fund expenditures, while the total fund balance represents 23.6%.

The fund balance of the National School Breakfast and Lunch fund continued to improve. Revenues exceeded expenditures by $41,371, increasing the total fund balance to $343,933. This balance includes inventory reserves of $134,430 and encumbrance reserves of $564. While ending inventory amounts were consistent with the prior year, outstanding encumbrances decreased by $89,869, resulting in an increase in the unreserved fund balance of $131,804.

The fund balance in the debt service fund increased $44,520 to an ending balance of $2,047,841 at August 31, 2008. This amount, reserved for the retirement of bonded debt, represented almost 30.0% of the debt service requirement for the fiscal year reported, however, with the issuance of new debt, the ending fund balance represents just 14.9% of the District's debt service requirement for the subsequent year.

Proprietary Funds

The District utilizes an internal service fund to record costs associated with its self-funded worker's compensation program and unemployment insurance. The fund was established in order to more effectively charge the various 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 $615,056. Claims incurred totaled $582,134 and administrative fees totaled $86,485. Claims experience for 2007-08 was slightly higher than the prior year, increasing $27,150 or 4.9%. Ending net assets at August 31, 2008 totaled $216,293 or 42.2% of the year's operating expenses. Projected unpaid incurred claims of $692,992 were accrued at August 31, 2008.

GENERAL FUND BUDGETARY HIGHLIGHTS

Appropriations in the original budget, as adopted by the District's Board of Trustees, totaled $106.8 million funded with estimated revenues of $106.8 million.

At the October meeting, the Board of Trustees voted to appropriate $350,000 of General Fund unreserved, undesignated fund balance to reacquire property previously sold to the Waco Art Center for the construction of a new building. $214,724 was appropriated as the District's match for awarded E-rate projects, $1,148,356 was re-appropriated for projects, for which funds were designated in 2006-07 but not completed during the year, and $36,260 was re-appropriated for selected purchase orders outstanding at August 31, 2007.

Revenue estimates were increased $1,650,703 for E-rate awards, insurance recoveries, energy savings incentives, and other miscellaneous receipts and were offset by increases in related expenditure budgets. Another $473,800 was placed in other resources and expenditure budgets for the sale of surplus buses and the subsequent purchase of new buses. $212,004 of funds received for bus sales was designated at year end for future bus purchases.

Realized revenue at August 31, 2008, exceeded budgeted estimates by $1.4 million. While local revenues were short of estimates by $0.9 million and federal program revenues by $0.1 million, State program revenues exceeded original estimates by over $2.5 million. The difference in local revenue was primarily due to a loss in investment income of almost $0.7 million, resulting from both lower interest rates and a delay in cash flows as State program revenues increased and local tax collections decreased.

Although average daily attendance was less than projected, adjustments in funding formulas, to integrate changes in the law governing tax rates for over-65 and disabled vet taxpayers, generated additional State foundation school program revenue for the District. These formula changes resulted in an increase of $0.6 million for 2007-08 and a retroactive adjustment to 2006-07 revenue of $1.9 million. These formula changes have been incorporated in projecting revenues for the 2008-09 fiscal year.

Appropriations were under-spent by $2.8 million. $1.3 million of this excess was in plant maintenance and operations and resulted from $0.5 million in incomplete projects, $0.3 million in utility savings and another $0.2 million in salary savings. Approximately $0.6 million remained in student transportation services due, primarily, to unspent funds appropriated for bus purchases which totaled $441,122. $229,418 of these funds were encumbered at August 31, 2008 for the purchase of three buses which had been ordered but not received and the other $212,004 was designated for future purchases as previously mentioned. Other remaining appropriations were consistent with normal spending patterns and resulted from periodic savings from unfilled positions, outstanding purchase orders, and other under-utilization of budgeted amounts.

In function 11, Instruction, expenditures exceed the budgeted appropriations by $107,289. This over-expenditure resulted from the recording of amounts paid by the State on behalf of the District for Medicare Part D. The District was informed by TEA of the availability of this information and the need to record both revenues and offsetting expenditures in early August. The total amount recorded was $163,514. Of this, $107,821 was allocated to function 11, the remaining $55,693 was absorbed under other functional categories of expenditures without exceeding functional appropriations.

Finally, the District recorded $1.4 million in other resources for the sale of real and personal property. While $473,800 of these receipts was placed into the budget because of the need to budget related expenditures for the purchase of buses, $0.9 million was recorded for the sale of the Old Waco High School building. At August 31, 2008, $180,000 had been remitted to the District, $100,000 was received in October and another $620,000 is due by December 31, 2008.

Operations resulted in a higher than anticipated ending fund balance. Original budget projections anticipated an ending fund balance of $22.0 million. Bolstered by the State revenue adjustments, sales of real and personal property, and the underutilization of budgeted appropriations, the ending fund balance exceeded $25.7 million.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The District's investment in capital assets for its governmental activities as of August 31, 2008, totaled $62,690,711, net of accumulated depreciation of $93,635,799. Capital assets, net of accumulated depreciation decreased $1,363,610 from the August 31, 2007 balance. The investment in capital assets includes facilities and equipment utilized in instruction, student support services, administrative services, community services, as well as maintenance, security and data processing.

Capital Asset Summary

	Governmental Activities	
	August 31, 2008	August 31, 2007
Land	$ 4,546,443	$ 4,540,404
Buildings and improvements	50,181,519	53,098,098
Furniture and equipment	6,038,304	6,415,819
Construction in progress	1,924,445	-
Total capital assets, net of accumulated depreciation	$ 62,690,711	$ 64,054,321

Major capital asset acquisitions for the current fiscal year included:

- Reacquisition of land for $347,724;
- Construction-in-progress of $1,924,445, including design and other professional services for the new J.H. Hines Elementary School and the new University High School projects approved in the May, 2008 bond election;
- Acquisition of new vehicles totaling $515,384, including the replacement of five buses, as well as, maintenance and security vehicles, and
- Other equipment purchases of $474,520, including a food service equipment, athletic equipment and data processing equipment.

These acquisitions were offset by depreciation and the sales 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, 2008, the District had debt obligations totaling $178,346,353. $5,025,000 in bonds was retired during 2007-08 through scheduled debt service payments. In May, 2008 voters authorized $174.5 million in general obligation bonds for the construction, renovation and equipping of school buildings throughout the District. On June 15, 2008, $127 million in new bonds were issued along with $6,265,000 in refunding bonds to retire remaining Series 1998 bonds. The refunding generated an anticipated present value savings of $166,897. Bond payments due within one year total $5,060,000.

Debt Summary

	Governmental Activities	
	August 31, 2008	August 31, 2007
General obligation bonds	$ 175,834,993	$ 54,454,993
Capital lease obligations	-	-
Unamortized bond issuance premium	3,806,590	2,040,632
Unamortized bond refunding loss	(1,626,603)	(1,605,686)
Accumulated accretion	331,373	227,845
Total long-term debt	$ 178,346,353	$ 55,117,784

The 'AAA' enhanced rating assigned to the District's bonds reflects the guarantee provided by the Texas Permanent School Fund. Standard & Poor's has assigned an underlying rating of 'A+'.

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 changes in State formula funding enacted by the 79th legislature, the Waco Independent School District is more dependent on State equalization funding to meet the cost of its operations than in recent years. For the 2007-08 fiscal year, maintenance and operations tax rates were compressed to 66.67% of a district's 2005-06 adopted tax rate. Districts continued to be held harmless to a per pupil revenue equal to its 2005-06 revenue. Waco ISD took advantage of provisions of the new law, to levy an additional $0.04 per $100 of valuation for maintenance and operations without voter approval.

In funding the 2008-09 budget, the Waco ISD Board of Trustees maintained a maintenance and operations rate of $1.04005. With a loss in enrollment of 232 from the 2006-07 to the 2007-08 school year, State foundation school program revenue for 2008-09 was calculated based on an additional decrease in enrollment of 130 students. As a result of changes in funding formulas for frozen values and increased property values, revenue estimates for the general fund increased $1.7 million from original estimates. This, coupled with reductions in initial budget allocations, enabled the Board to provide an average pay increase of 4.0% to teachers, nurse, librarians and counselors, increasing the starting salary by $1,000 to $38,000. Paraprofessional and auxiliary employee groups were given an increase equal to 3.5% of the midpoint of their pay ranges with the administrative group receiving 3%. The total compensation package for 2008-09 amounted to $2.5 million, impacting the general fund by over $2 million.

On the expenditure side, the adopted budget increased $2.0 million over 2007-08. As mentioned above, this increase resulted from salary increases. All other increases, including health benefits, utilities, fuel, property appraisal and tax collection fees, and other miscellaneous rate increases, were again funded through reductions in the base budget. Campus allocations were reduced for losses in enrollments and budgets for centralized services were reviewed and reduced where possible.

As always, the District's administration and elected officials considered many factors in developing the 2008-09 budget. With declining populations in areas of the District, the Board of Trustees has been forced to make difficult decisions. Just before the 2008-09 school year began, the Board voted to close G.L. Wiley Middle School. The campus's continually declining enrollment had dropped below 200 students and, with little or no growth in projected revenues, the decision was made to close the campus. It is anticipated that the closure will ultimately save the District approximately $800,000 in annual operating costs.

With the issuance of $127 million of new general obligation bonds, the District's interest and sinking fund tax rate of $0.1220 per $100 of valuation was increased to $0.319099. This first issue of bonds authorized by voters in May will fund new construction, replacing University High and J.H. Hines Elementary Schools, science lab additions at Waco High School and A.J. Moore Academy, as well as, over $13 million in major renovations and repairs to existing campuses. Because of the availability of these funds, none of the general fund unreserved, undesignated fund balance was allocated to major repair or renovations projects for 2008-09. Only carryover funds from prior years' designations will be used for that purpose.

Although the adopted budget anticipated a draw-down of the fund balance of just under $400,000, fall enrollments for the District are well above the numbers used for budget development, increasing 257 students over the prior year. If current projections hold, State program revenue could increase by $1.5 million. However, with the cutting of interest rates by the Federal Reserve these gains in State revenue may be all but offset by losses in investment income.

In December of 2008 the Federal Reserve cut its target for key interest rate to the lowest level on record and pledged to use "all available tools" to combat a severe financial crisis and prolonged recession. Investment losses, catastrophic damages from Hurricane Ike and continued enrollment growth throughout Texas have negatively impacted State coffers and limited funds available for legislators to work with in the upcoming legislative session.

On the local level, while food and clothing prices are increasing at a much slower rate than the U.S. urban average, the inflation rate for housing and medical care is almost double. It is hoped that lower fuel prices will begin to drive these costs down. The unemployment rate in the Waco metropolitan statistical area has increased from 4.2% a year ago to 4.8%, better than the overall 5% rate for Texas or the U.S. rate of 6%. Locally, gross sales increased only 5.4% in the past year compared to a 5.9% growth for the State. The slower rate of growth in retail sales is discouraging in that they failed to keep pace with the average rate of inflation over the period and may reflect higher prices rather than increases in spending. Housing starts in Waco fell by 28% in 2007 and continued to fall in 2008. Foreclosure rates have begun to increase in recent months and this will likely negatively impact property tax collections.

Most recently, the Texas Education Agency has announced the suspension of the Permanent School Fund guarantee for school district bond issues. The fund's investments have declined by almost one-third and there is not capacity to guarantee new issues at this time. Waco ISD had planned to issue the remaining bonds authorized last May in June, 2009 but may delay depending on market conditions. The District will monitor conditions and interest rates in order to best time future bond sales and fully maximize our buying capacity.

With the current economic recession and instability in the financial markets, Districts across the State have begun early to look at their 2009-10 budgets. Many are reviewing their adopted 2008-09 budgets, looking for ways to curtail current spending. Waco ISD will continue to initiate cost saving measures and look for additional efficiencies in assigning personnel, procuring materials and services, and in utilizing facilities in order to execute an effective long-range plan and insure the District's financial stability.

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 Ave., Waco, Texas 76701.

Basic Financial Statements

Waco Independent School District

Statement of Net Assets

August 31, 2008

Data Control Codes		Governmental Activities
	ASSETS	
1110	Cash and cash equivalents	$ 118,319,799
1120	Current investments	30,512,000
1225	Property taxes receivable, net of allowance for uncollectibles of $1,661,277	1,364,931
1240	Due from other governments	12,390,613
1250	Accrued interest receivable	258,213
1290	Other receivables	779,486
1310	Inventories	478,594
1410	Deferred expenses	10,195
1420	Capitalized bond and other debt issuance costs	227,566
	Capital assets, net of accumulated depreciation:	
1510	Land	4,546,443
1520	Buildings and improvements	50,181,519
1530	Furniture and equipment	6,038,304
1580	Construction in progress	1,924,445
	Total assets	227,032,108
	LIABILITIES	
2110	Accounts payable	3,442,385
2140	Accrued interest payable	1,944,429
2150	Payroll deductions and withholdings	992,694
2160	Accrued wages	1,007,691
2170	Due to fiduciary funds	262,423
2180	Due to other governments	10,689
2200	Accrued expenses	857,483
2300	Unearned revenue	615,873
	Noncurrent liabilities:	
2510	Due within one year	5,060,000
2510	Due after one year	173,286,353
	Total liabilities	187,480,020
	NET ASSETS	
3200	Invested in capital assets, net of related debt	11,379,742
	Restricted for:	
3800	Debt service	586,645
3900	Unrestricted	27,585,701
	Total net assets	$ 39,552,088

See accompanying notes to financial statements

Exhibit B-1

Waco Independent School District

Statement of Activities

For the Year Ended August 31, 2008

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	$ 73,579,542	919,635	16,042,359	(56,617,548)
12	Instructional resource and media services	1,274,013	-	82,160	(1,191,853)
13	Curriculum and instructional staff development	4,400,174	-	3,462,665	(937,509)
21	Instructional leadership	2,471,105	-	591,319	(1,879,786)
23	School leadership	8,128,499	207,874	422,386	(7,498,239)
31	Guidance, counseling and evaluation services	4,241,210	51,969	841,362	(3,347,879)
32	Social work services	861,141	34,806	135,124	(691,211)
33	Health services	1,013,621	-	76,759	(936,862)
34	Student transportation	2,846,305	-	-	(2,846,305)
35	Food services	7,987,328	783,973	7,151,542	(51,813)
36	Cocurricular/extracurricular activities	3,967,493	535,176	107,951	(3,324,366)
41	General administration	3,137,939	98,090	211,140	(2,828,709)
51	Plant maintenance and operations	15,046,951	121,494	1,103,559	(13,821,898)
52	Security and monitoring services	1,649,371	25,984	58,305	(1,565,082)
53	Data processing services	3,173,049	-	1,369,512	(1,803,537)
61	Community services	2,087,377	391,081	956,282	(740,014)
72	Interest on long-term debt	3,461,521	-	2,110,829	(1,350,692)
73	Bond issuance cost and fees	7,550	-	-	(7,550)
81	Facilities Acquisition and construction	541	-	-	(541)
93	Payments to fiscal agents/member districts of shared services arrangements	216,105	77,953	-	(138,152)
95	Payments related to Juvenile Justice Alternative Education Program	606,215	-	-	(606,215)
97	Payments to tax increment zones	1,859,983	-	-	(1,859,983)
99	Other intergovernmental charges	596,346	-	-	(596,346)
	Total governmental activities	$ 142,613,379	3,248,035	34,723,254	(104,642,090)

Data Control Codes		
	General revenues:	
	Taxes:	
MT	Property taxes, levied for general purposes	36,490,163
DT	Property taxes, levied for debt service	4,256,259
SF	State aid-formula grants	64,792,250
IE	Investment earnings	1,435,663
MI	Miscellaneous	789,196
SI	Gain on disposal of land, buildings and equipment	609,740
TG	Total general revenues	108,373,271
CN	Change in net assets	3,731,181
NB	Net assets, beginning	35,820,907
NE	Net assets, ending	$ 39,552,088

See accompanying notes to financial statements

Waco Independent School District

Balance Sheet
Governmental Funds

August 31, 2008

Data Control Codes		10 General Fund	24 National Breakfast & Lunch Fund	50 Debt Service Fund	60 Capital Projects 2008 Fund	Other Governmental Funds	Total Governmental Funds
	ASSETS						
1110	Cash and cash equivalents	$ 16,147,063	50,113	2,766,100	98,672,347	684,175	118,319,798
1120	Investments	2,012,001	-	-	28,500,000	-	30,512,001
1225	Property taxes receivable (net of allowances for uncollectibles)	1,240,364	-	124,567	-	-	1,364,931
1240	Due from other governments	9,885,082	169,710	-	-	2,335,821	12,390,613
1250	Accrued interest receivable	52,035	-	-	206,178	-	258,213
1260	Due from other funds	2,416,805	134,922	-	16,669	446,477	3,014,873
1290	Other receivables	749,495	1,415	-	-	28,576	779,486
1310	Inventories	263,053	215,541	-	-	-	478,594
1410	Deferred expenditures	185	-	-	10,010	-	10,195
	Total assets	$ 32,766,083	571,701	2,890,667	127,405,204	3,495,049	167,128,704
	LIABILITIES AND FUND BALANCES						
	Liabilities:						
2110	Accounts payable	$ 2,091,138	142,672	-	753,653	421,735	3,409,198
2140	Interest payable - current	-	-	700,414	-	-	700,414
2150	Payroll deductions and withholdings payable	992,694	-	-	-	-	992,694
2160	Accrued wages payable	865,489	3,985	-	-	138,217	1,007,691
2170	Due to other funds	1,949,646	-	18,437	24,111	2,390,924	4,383,118
2180	Due to other governments	-	-	-	-	10,689	10,689
2200	Accrued expenditures	1,141	-			-	1,141
2300	Deferred revenues	1,145,764	81,111	123,975	-	524,979	1,875,829
	Total liabilities	7,045,872	227,768	842,826	777,764	3,486,544	12,380,774
	Fund balances:						
	Reserved for:						
3410	Investments in inventory	263,053	134,430	-	-	-	397,483
3420	Debt service	-	-	2,047,841	-	-	2,047,841
3430	Prepaid items	185	-	-	-	-	185
3440	Encumbrances	659,073	564	-	159,500	-	819,137
3450	Food service	-	208,939	-	-	-	208,939
3470	Capital acquisition program	-	-	-	126,467,940	8,505	126,476,445
	Unreserved, designated for:						
3530	Capital Expenditures for Equipment	212,004	-	-	-	-	212,004
3590	Maintenance and other projects	716,055	-	-	-	-	716,055
3600	Unreserved, undesignated	23,869,841	-	-	-	-	23,869,841
	Total fund balances	25,720,211	343,933	2,047,841	126,627,440	8,505	154,747,930
	Total liabilities and fund balances	$ 32,766,083	571,701	2,890,667	127,405,204	3,495,049	167,128,704

See accompanying notes to financial statements.

Waco Independent School District

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

August 31, 2008

Data Control Codes			
3600	Fund balances - total governmental funds (Exhibit C-1)	$	154,747,930
	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.		216,293
2	Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		62,690,711
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.		(179,590,368)
4	Certain bond issuance costs are not capitalized at the fund level.		227,566
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.		1,259,956
	Net assets of governmental activities (Exhibit A-1)	$	39,552,088

See accompanying notes to financial statements.

Waco Independent School District

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

For the Year Ended August 31, 2008

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	$ 39,211,510	797,105	4,452,888	376,221	1,726,981	46,564,705
5800	State program revenues	68,995,606	57,960	2,110,829	-	3,386,423	74,550,818
5900	Federal program revenues	1,945,968	7,004,821	-	-	15,586,121	24,536,910
5020	Total revenues	110,153,084	7,859,886	6,563,717	376,221	20,699,525	145,652,433
	EXPENDITURES						
	Current:						
6011	Instruction	57,481,032	-	-	-	13,938,615	71,419,647
6012	Instructional resources and media services	1,183,365	-	-	-	22,139	1,205,504
6013	Curriculum and instructional staff development	956,504	-	-	-	3,439,114	4,395,618
6021	Instructional leadership	1,935,607	-	-	-	523,082	2,458,689
6023	School leadership	7,742,297	-	-	-	334,777	8,077,074
6031	Guidance, counseling and evaluation services	3,489,051	-	-	-	737,040	4,226,091
6032	Social work services	740,284	-	-	-	120,322	860,606
6033	Health services	989,629	-	-	-	8,751	998,380
6034	Student transportation services	2,671,268	-	-	-	-	2,671,268
6035	Food services	-	7,450,740	-	-	445,671	7,896,411
6036	Cocurricular/extracurricular activities	3,552,548	-	-	-	33,363	3,585,911
6041	General administration	3,091,533	-	-	-	9,451	3,100,984
6051	Plant maintenance and operations	14,659,873	370,042	-	-	22,020	15,051,935
6052	Security and monitoring services	1,614,407	-	-	-	44,631	1,659,038
6053	Data processing services	3,238,787	-	-	-	-	3,238,787
6061	Community services	1,145,724	-	-	-	936,569	2,082,293
6093	Payments to fiscal agent/member districts of shared services arrangements	138,000	-	-	-	78,105	216,105
6095	Payments to Juvenile Justice Alternative Education Program	606,215	-	-	-	-	606,215
6097	Payments to tax increment zone	1,715,083	-	144,900	-	-	1,859,983
6099	Other intergovernmental charges	596,346	-	-	-	-	596,346
	Debt service:						
6071	Principal	590,000	-	4,435,000	-	-	5,025,000
6072	Interest	375,066	-	1,974,286	-	-	2,349,352
6073	Bond issuance cost and fees	5,000	-	60,563	-	-	65,563
	Capital outlay:						
6081	Facilities acquisition and construction	347,724	-	-	1,938,546	540	2,286,810
6030	Total expenditures	108,865,343	7,820,782	6,614,749	1,938,546	20,694,190	145,933,610
1100	Excess (deficiency) of revenues over (under) expenditures	1,287,741	39,104	(51,032)	(1,562,325)	5,335	(281,177)
	OTHER FINANCING SOURCES (USES)						
7911	Bonds issued	-	-	6,265,000	126,405,000	-	132,670,000
7912	Sale of real and personal property	1,376,300	-	-	-	-	1,376,300
7915	Transfers in	-	-	49,908	-	-	49,908
7916	Premium on bonds issued	-	-	187,682	1,784,765	-	1,972,447
7949	Insurance Recovery	13,678	2,267	-	-	-	15,945
8911	Transfers out	-	-	-	-	(49,909)	(49,909)
8949	Other Uses	-	-	(6,407,038)	-	-	(6,407,038)
	Total other financing sources (uses)	1,389,978	2,267	95,552	128,189,765	(49,909)	129,627,653
1200	Net change in fund balances	2,677,719	41,371	44,520	126,627,440	(44,574)	129,346,476
0100	Fund balances, beginning	23,042,492	302,562	2,003,321	-	53,079	25,401,454
3000	Fund balances, ending	$ 25,720,211	343,933	2,047,841	126,627,440	8,505	154,747,930

See accompanying notes to financial statements.

Waco Independent School District

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

For the Year Ended August 31, 2008

Net changes in fund balances - total governmental funds (Exhibit C-3)	$	129,346,476
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.		(53,563)
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 2008 capital outlays and debt principal payments is to decrease net assets.		8,287,073
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.		(3,859,123)
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.		(766,560)
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.		(128,235,409)
Property tax revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		66,442
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, adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating interfund transactions, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase net assets.		(1,054,155)
Changes in net assets of governmental activities (Exhibit B-1)	$	3,731,181

See accompanying notes to financial statements.

Waco Independent School District

Statement of Net Assets
Proprietary Fund

August 31, 2008

	Governmental Activities
	Internal Service Fund
ASSETS	
Current assets:	
Due from other funds	$ 1,105,822
Total assets	1,105,822
LIABILITIES	
Current liabilities:	
Accounts payable	33,187
Accrued expenses	856,342
Total liabilities	889,529
NET ASSETS	
Unrestricted net assets	216,293
Total net assets	$ 216,293

See accompanying notes to financial statements.

Waco Independent School District

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

Year Ended August 31, 2008

	Governmental Activities
	Internal Service Fund
Operating revenues:	
Charges for services	$ 615,056
Total operating revenues	615,056
Operating expenses:	
Professional and contracted services	86,485
Claims expense	582,134
Total operating expenses	668,619
Operating loss	(53,563)
Change in Net Assets	(53,563)
Total net assets, beginning	269,856
Total net assets, ending	$ 216,293

See accompanying notes to financial statements.

Waco Independent School District

Statement of Cash Flows
Proprietary Fund

For the Year Ended August 31, 2008

	Governmental Activities
	Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from assessments - other funds	$ 615,056
Cash payments for insurance claims	(582,134)
Cash payments for other operating expenses	(86,485)
Net cash provided by operating activities	(53,563)
Net increase in cash and cash equivalents	-
Cash and cash equivalents at beginning of year	-
Cash and cash equivalents at end of year	$ -
Reconciliation of operating income to net cash provided by operating activities:	
Operating loss	$ (53,563)
Effects of increases and decreases in assets and liabilities:	
Increase in due from other funds	(98,322)
Decrease in accounts payable	(11,465)
Increase in accrued expenses	163,350
Net cash provided by operating activities	$ -

See accompanying notes to financial statements.

Waco Independent School District

Statement of Fiduciary Net Assets
Fiduciary Funds

August 31, 2008

	Private Purpose Trust Fund	Agency Fund
ASSETS		
Cash and cash equivalents	$ -	113,649
Investments - Current	13,500	-
Due from other funds	127	262,296
Total assets	13,627	375,945
LIABILITIES		
Accounts payable	-	47,189
Due to student groups	-	328,756
Total liabilities	-	375,945
NET ASSETS		
Restricted for scholarships	13,627	
Total net assets	13,627	

See accompanying notes to financial statements.

Waco Independent School District

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds

For the Year Ended August 31, 2008

	Private Purpose Trust Fund
ADDITIONS	
Contributions:	
Private donations	$ 5,000
Interest on investments	127
Total contributions	5,127
DEDUCTIONS	
Scholarships awarded	-
Total deductions	-
Change in net assets	5,127
Net assets, beginning	8,500
Net assets, ending	$ 13,627

See accompanying notes to financial statements.

I. Summary of Significant Accounting Policies

Waco Independent School District (the "District") is a public educational agency operating under the applicable laws and regulations of the State of Texas. It is governed by a seven member Board of Trustees (the "Board") elected by registered voters of the District. The District prepares its basic financial statements in conformity with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board and 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 Fund, Series 2008 – The proceeds from long-term debt, issued June 15, 2008, and revenues and expenditures related to authorized construction and other capital asset acquisitions are accounted for in this fund.

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.

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

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 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 will continue to report the investment at its amortized cost, even though that amount temporarily exceeds the investment's net realizable value.

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 vacation and sick leave days earned by them for services performed. Vacation 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, 2008	Change in Net Assets
Land	$ 4,546,443	-	4,546,443	
Buildings and improvements	136,037,562	85,856,043	50,181,519	
Furniture and equipment	13,818,060	7,779,756	6,038,304	
Construction in progress	1,924,445	-	1,924,445	62,690,711

Long-term Liabilities	Payable at August 31, 2008	
Bonds payable	175,834,993	
Add:		
Premium on issuance	3,806,590	
Accumulated accretion on capital appreciation bonds	331,373	
Less:		
Deferred charges on refunding	(1,626,603)	
Accrued interest payable	1,244,015	(179,590,368)
Net adjustment to net assets		$ (116,899,657)

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	$ 347,724		
Buildings and improvements	-		
Furniture and equipment	989,904		
Construction in progress	1,924,445		
Total capital outlay	3,262,073	3,262,073	3,262,073
Debt Principal Payments			
General obligation bonds	4,435,000		
Maintenance tax notes	410,000		
Capital lease payments	180,000		
Total principal payments	5,025,000	5,025,000	5,025,000
Total adjustment to net assets		$ 8,287,073	8,287,073

Another element of the reconciliation on Exhibit C-4 is described as various other reclassifications and eliminations necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. This adjustment is the result of several items. The details are as follows:

	Amount
Debt Issued or incurred:	
Bond issuance costs on refunding	$ 58,013
Amortization of:	
Bond issuance costs	(24,544)
Deferred loss on refunding	(121,121)
Premiums / (discounts) on bonds	206,488
Accretion of interest on capital appreciation bonds	(103,528)
Accrued interest payable	(1,069,463)
Adjustments to Changes in Net Assets	$ (1,054,155)

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.

A. Budgetary Data (continued)

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:
   - $1,148,395 of designated fund balances was re-appropriated to complete previously approved projects;
   - $673,458 of reserved fund balances was re-appropriated to cover encumbered purchase orders and contracts outstanding at year-end;
   - $350,000 of unreserved, undesignated fund balance was appropriated to fund the reacquisition of land previously sold for the construction of an art center;
   - $1,798,278 for approved E-rate projects with $1,583,554 from anticipated federal program revenue and the matching portion of $214,724 from unreserved, undesignated fund balance;
   - $473,800 received from the sale of buses to purchase additional buses;
   - $701,267 of additional revenue in child nutrition programs to fund related expenditures; and
   - $6,410,837 from the issuance of refunding bonds to cover payments to the escrow agent for refunded bonds.

   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 C-5 and the other two reports are in Exhibit J4 and J5. All budget appropriations lapse at year-end.

	Original Budget Appropriation	Increase (Decrease)	Amended Budget Appropriation
General Fund	$ 106,841,414	4,774,173	111,615,587
National Breakfast and Lunch Program Fund	7,128,696	701,267	7,829,963
Debt Service Fund	6,690,422	3,799	6,694,221
	$ 120,660,532	5,479,239	126,139,771

   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 and 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

Expenditures exceeded appropriations for the year ended August 31, 2008 as follows:

Fund/Function	Amount
General fund:	
0011 Instruction	$ 107,287

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 2008:

   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 $15,640,262.

   c. The highest combined balance of cash, savings and time deposit accounts amounted to $12,990,092 and occurred on December 20, 2007.

   d. Total amount of FDIC coverage at the time of largest combined balance was $100,000.

2. District Policies and Legal and Contractual Provisions Governing Investments

   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.

A. Deposits and Investments (continued)

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

As of August 31, 2008, 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	$ 5,750,034	5,636,385	113,649
Cash equivalents[1]:			
Certificates of deposit	92,017,466	92,003,966	13,500
Money market accounts	11,446	11,446	-
Public funds investment pools	20,668,001	20,668,001	-
Total cash equivalents	112,696,913	112,683,413	13,500
Total cash and cash equivalents	118,446,948	118,319,799	127,149
Investments	30,512,000	30,512,000	-
Total deposits and investments	$ 148,958,948	148,831,799	127,149

[1] Cash equivalents include investments with original maturities of three months or less from the data of acquisition

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.

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.

A. Deposits and Investments (continued)

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

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.

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, 2008, 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. U.S. Government securities held by the District at August 31, 2008, are rated by Standard and Poor's as follows: Federal Home Loan Bank, Federal Home Loan Mortgage Corporation and Federal National Mortgage Association are each rated AAA.

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.

A. Deposits and Investments (continued)

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

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.

	Fair Value	Weighted Average Maturity (in Days)
Cash equivalents:		
Certificates of deposit:		
Central National Bank	10,000,000	615
Community Bank & Trust	5,003,966	615
Compass Bank	20,000,000	615
Fidelity Bank of Texas	5,000,000	615
SWS Financial Services (CDARS)	52,000,000	306
Fiduciary Funds	13,500	162
Money market accounts	11,446	41
Public funds investment pools:		
Lone Star Investment Pool (Lone Star)	51,210	33
MBIA Municipal Investors Service Corporation (MBIA)	1,375,594	40
Texas Local Government Investment Pool (TexPool)	6,982,923	44
Texas Short Term Asset Reserve Fund (TexStar)	1,961,859	36
TexasTERM Local Government Investment Pool (TexasDAILY)	10,296,415	54
Investments:		
Public funds investment pools:		
TexasTERM Local Government Investment Pool (TexasTERM)	28,500,000	197
U.S. agency obligations:		
Federal Home Loan Bank	1,004,370	194
Federal Home Loan Bank	1,007,630	193
Total deposits and investments	$ 143,208,913	
Portfolio weighted average maturity		332
Portfolio weighted average maturity excluding capital projects funds		54

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, 2007, on which the 2007 levy was based, was $3,738,882,720. The District's maintenance and operations rate levied for 2007 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 2007 was $0.1220 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, 2008, consisted of the following amounts:

Funds		Receivable	Payable
General fund	$	2,416,805	1,949,646
National School Breakfast and Lunch fund		134,922	-
Debt service fund		-	18,437
Capital projects fund, series 2008		16,669	24,111
Other non-major governmental funds		446,477	2,390,924
Internal service fund		1,105,822	-
Private purpose trust fund		127	-
Agency funds		262,296	-
	$	4,383,118	4,383,118

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, 2008 consisted of the following:

	General Fund	National School Lunch and Breakfast Fund	Debt Service Fund	Other Governmental Funds	Total
Unavailable:					
Delinquent property taxes	$ 1,145,764	-	114,192	-	1,259,956
Unearned:					
State revenue	-	-	9,783	-	9,783
Grant draw downs received prior to meeting all eligibility requirements:					
USDA Commodities	-	81,111	-	-	81,111
Other federal programs	-	-	-	8,460	8,460
State programs:					
Professional Staff Development	-	-	-	2,269	2,269
Early Childhood Summer (LEP) Program	-	-	-	7,648	7,648
Advanced Placement Incentives	-	-	-	16,383	16,383
Technology Allotment	-	-	-	12,994	12,994
Pre-K Expansion Grant	-	-	-	2,294	2,294
High School Allotment	-	-	-	91,557	91,557
Other State programs	-	-	-	22,882	22,882
Challenge Academy	-	-	-	137,610	137,610
Day School for the Deaf	-	-	-	45,574	45,574
Local grants	-	-	-	177,308	177,308
	$ 1,145,764	81,111	123,975	524,979	1,875,829

F. Capital Asset Activity

Capital asset activity for the District for the year ended August 31, 2008, was as follows:

	Balance September 1, 2007	Additions	Deletions	Reclassifications	Balance August 31, 2008
Capital assets, not being depreciated:					
Land	$ 4,540,404	347,724	(341,685)	-	4,546,443
Construction in progress	-	1,924,445	-	-	1,924,445
Total capital assets, not being depreciated	4,540,404	2,272,169	(341,685)	-	6,470,888
Capital assets, being depreciated:					
Buildings and improvements	136,749,507	-	(711,945)	-	136,037,562
Furniture, equipment and vehicles	13,346,311	989,904	(518,155)	-	13,818,060
Total capital assets, being depreciated	150,095,818	989,904	(1,230,100)	-	149,855,622
Less accumulated depreciation for:					
Buildings and improvements	83,651,409	2,897,591	(692,957)	-	85,856,043
Furniture, equipment and vehicles	6,930,492	961,532	(112,268)	-	7,779,756
Total accumulated depreciation	90,581,901	3,859,123	(805,225)	-	93,635,799
Total capital assets, being depreciated, net	59,513,917	(2,869,219)	(424,875)	-	56,219,823
Governmental activities capital assets, net	$ 64,054,321	(597,050)	(766,560)	-	62,690,711

F. Capital Asset Activity (continued)

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

Function	Description	Amount
11	Instruction	$ 2,125,076
12	Instructional resources and media services	67,973
13	Curriculum and instructional staff development	2,949
21	Instructional leadership	11,345
23	School leadership	47,140
31	Guidance, counseling and evaluation services	12,976
33	Health services	14,705
34	Student transportation	553,352
35	Food services	141,115
36	Extracurricular activities	470,903
41	General administration	35,885
51	Plant maintenance and operations	129,194
52	Security and monitoring services	17,480
53	Data processing services	224,482
61	Community services	4,548
Total depreciation expense - governmental activities		$ 3,859,123

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, 2008.

	Balance September 1, 2007	Increases	Decreases	Balance August 31, 2008	Due Within One Year
Bonds payable:					
General obligation bonds	$ 54,454,993	132,670,000	(11,290,000)	175,834,993	5,060,000
Deferred amounts:					
For issuance premiums	2,040,632	1,972,446	(206,488)	3,806,590	-
On refunding	(1,605,686)	(142,038)	121,121	(1,626,603)	-
Accumulated accretion	227,845	103,528	-	331,373	-
Total bonds payable	$ 55,117,784	134,603,936	(11,375,367)	178,346,353	5,060,000

The District issued $132,670,000 in unlimited tax school building and refunding bonds. $126,405,000 of the bonds was issued to provide resources to construct, improve, renovate and equip school buildings in the District. The remaining $6,265,000 refunding bonds were issued to purchase government securities, achieving an estimated present value savings of $166,897, a present value savings ratio of 2.7%. The securities were placed in an irrevocable trust for the purpose of generating funds for all future debt service payments of $6,625,000 of the remaining general obligation bonds, series 1998. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the District's financial statements. On August 31, 2008, $27,475,000 of bonds considered defeased are still outstanding.

G. Long-Term Debt (continued)

General obligation debt at August 31, 2008, 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%	$	3,110,000
$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%		2,015,000
$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%		13,805,000
$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%		2,230,000
$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%		13,454,993
$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%		3,975,000
$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%		4,575,000
$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%		132,670,000
	$	175,834,993

General obligation bonds mature serially and the capital appreciation bonds accrete in value through 2020. Debt service requirements for general obligation bonds are as follows:

G. Long-Term Debt (continued)

Year Ended August 31,	Principal	Interest	Total
2009	$ 4,440,000	$ 9,278,257	$ 13,718,257
2010	5,615,000	7,949,844	13,564,844
2011	4,790,075	8,543,375	13,333,450
2012	4,919,917	8,432,458	13,352,375
2013	6,030,000	7,330,745	13,360,745
2014-2018	29,120,000	32,898,979	62,018,979
2019-2023	27,315,000	26,429,014	53,744,014
2024-2028	21,975,000	19,846,564	41,821,564
2029-2033	28,335,000	13,483,675	41,818,675
2034-2038	36,210,000	5,607,750	41,817,750
	$ 168,749,992	$ 139,800,661	$ 308,550,653
Less interest accretion in future years	594,917		
Total prinicpal due at August 31, 2008	$ 168,155,075		

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, 2008.

Summary information for the capital appreciation bonds is as follows:

Series	Original Amount Outstanding	Accreted Value August 31, 2008
Unlimited Tax Refunding Bonds, Series 2004	$ 1,967,517	$ 2,265,432
Unlimited Tax Refunding Bonds, Series 2006	422,085	453,851
Unlimited Tax School Building and Refunding Bonds, Series 2008	1,159,108	1,160,800
Total	$ 3,548,710	$ 3,880,082

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
2009	$ 620,000	$ 347,100	$ 967,100
2010	645,000	318,100	963,100
2011	675,000	287,913	962,913
2012	705,000	256,325	961,325
2013	740,000	223,200	963,200
2014-2018	3,030,000	549,690	3,579,690
2019-2023	670,000	37,397	707,397
Totals	$ 7,085,000	$ 2,019,725	$ 9,104,725

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 6.58% for fiscal year 2008 and 6.0% for fiscal years 2007 and 2006. In certain instances the reporting district is required to make all or a portion of the state's 6.58% 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, 2008	Year Ended August 31, 2007	Year Ended August 31, 2006
State TRS on-behalf contributions	$ 3,553,206	$ 3,420,937	$ 3,369,207
District contributions for above statutory minimum	734,577	554,434	482,351
Total	$ 4,287,783	$ 3,975,371	$ 3,851,558

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 2008, 2007, and 2006. 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 2008, 2007, and 2006 are as follows:

	Year Ended August 31, 2008	Year Ended August 31, 2007	Year Ended August 31, 2006
State TRS on-behalf contributions	$ 540,001	$ 570,156	$ 561,535
Active member's conributions	511,360	510,289	472,167
District contributions to TRS Care	432,726	431,780	399,519
Total	$ 1,484,087	$ 1,512,225	$ 1,433,221

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 $163,514, $168,613 and $113,042 for fiscal years 2008, 2007, and 2006, respectively. Revenue and expenditures equal to the amount paid by the federal government were recognized during the 2008 fiscal year. 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, 2008, 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	$ 9,885,082	$ -	$ -	$ 9,885,082
Special Revenue	258,140	2,227,236	20,155	2,505,531
Debt Service	-	-	-	-
Total	$ 10,143,222	$ 2,227,236	$ 20,155	$ 12,390,613

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	$ 37,008,159	$ -	$ 4,313,400	$ -	$ -	$ 41,321,559
Food sales	-	783,946	-	-	27	783,973
Investment income	914,080	13,159	139,488	376,221	26,430	1,469,378
Extracurricular activities	525,374	-	-		-	525,374
Tuition and fees	394,656	-	-		-	394,656
SSA revenue from member districts	88,289	-	-		1,299,213	1,387,502
Other	280,952	-	-		401,311	682,263
	$ 39,211,510	$ 797,105	$ 4,452,888	$ 376,221	$ 1,726,981	$ 46,564,705

L. Economic Dependency

During the year ended August 31, 2008, the District received 51% of its revenues from the State of Texas and 17% 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, 2008, 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. Litigation -- The District is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the District's financial position, results of operations, or liquidity.

N. Shared Services Arrangements

The District is the fiscal agent for the McLennan County Challenge Academy, a SSA which provides juvenile justice alternative education programs to member districts. In addition to Waco ISD other member districts include Axtell ISD, Bosqueville ISD, Bruceville-Eddy ISD, China Spring ISD, Connally ISD, Crawford ISD, La Vega ISD, Lorena ISD, the Bill Logue Juvenile Detention Center, Mart ISD, McGregor ISD, the Methodist Home, Midway ISD, Moody ISD, Riesel ISD, Robinson ISD, 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:

N. Shared Services Arrangements (continued)

	Student Days Attended	Fund 446 McLennan Co. Challenge Academy
Axtell ISD	121	$ 10,163
Bosqueville ISD	1	-
Bruceville-Eddy ISD	396	33,260
China Spring ISD	93	7,811
Connally ISD	839	70,467
Crawford ISD	48	-
La Vega ISD	750	62,992
Lorena ISD	142	11,926
Bill Logue Juvenile Detention Center	662	55,601
Mart ISD	23	1,932
McGregor ISD	134	11,255
Methodist Home	118	9,911
Midway ISD	948	79,622
Moody ISD	17	-
Riesel ISD	64	5,375
Robinson ISD	823	69,123
Valley Mills ISD	8	672
West ISD	191	16,042
Waco ISD	8,713	737,336
Total Expenditures	14,091	$ 1,183,488

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. Expenditures of the SSA are summarized below:

Member	Number of Students	Fund 458 Local Funds Day School for the Deaf
Axtell	1	$ 10,331
Connally	1	10,331
Hill County	3	30,993
HOT Co-op	2	20,662
La Vega	1	10,331
Midway	3	30,993
Rio Brazos Co-op	3	30,993
Waco	13	134,301
Total Expenditures	27	$ 278,935

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. Premiums are paid into the internal service fund by all other funds and are available to pay claims, claim reserves, and administrative costs of the program.

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. An excess coverage insurance policy covers aggregate claims in excess of $748,988. Settlements for the 2005 plan year exceeded the aggregate liability for that year by $9,115. Changes in the balances of claims liabilities during the past year are as follows:

Unpaid claims, beginning of year	$	737,644
Incurred claims (including IBNR)		582,133
Claim payments		(430,249)
Unpaid claims, end of year	$	889,529

Q. Arbitrage

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

The Act requires issuers of tax-exempt debt to make payments to the United States Treasury for investment income received at yields that exceed the issuer's tax exempt borrowing rates. The Treasury requires payment for each issue every five years. The estimated liability is updated annually for all tax-exempt issuances or changes in yields until such time payment of the calculated liability is due.

The District estimates and updates its liability annually for all tax-exempt issuances. In June, the Unlimited Tax School Building Bonds, Series 1998 were completely refunded triggering the final calculation of arbitrage liability. As of August 31, 2008, $1,165.73 of arbitrage rebate was accrued as a liability on the 1998 bonds.

Required Supplementary Information

Waco Independent School District

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

General Fund

For the Year Ended August 31, 2008

Data Control Codes		Budgeted Amounts		Actual	Variances With Final Budget
		Original	Final		
	REVENUES				
5700	Local and intermediate sources	$ 39,863,648	$ 40,193,929	$ 39,211,510	$ (982,419)
5800	State program revenues	66,473,766	66,473,766	68,995,606	2,521,840
5900	Federal program revenues	504,000	2,087,554	1,945,968	(141,586)
5020	Total revenues	106,841,414	108,755,249	110,153,084	1,397,835
	EXPENDITURES				
	Current:				
6011	Instruction	56,493,014	57,373,745	57,481,032	(107,287)
6012	Instructional resources and media services	1,136,108	1,192,043	1,183,365	8,678
6013	Curriculum and instructional staff development	965,377	996,940	956,504	40,436
6021	Instructional leadership	2,021,776	2,021,309	1,935,607	85,702
6023	School leadership	7,968,794	7,868,415	7,742,297	126,118
6031	Guidance, counseling and evaluation services	3,525,957	3,522,285	3,489,051	33,234
6032	Social work services	707,440	755,344	740,284	15,060
6033	Health services	1,047,447	999,838	989,629	10,209
6034	Student transportation services	2,554,986	3,223,249	2,671,268	551,981
6036	Cocurricular/extracurricular activities	3,499,212	3,592,312	3,552,548	39,764
6041	General administration	3,786,286	3,148,567	3,091,533	57,034
6051	Plant maintenance and operations	14,779,995	15,970,480	14,659,873	1,310,607
6052	Security and monitoring services	1,615,387	1,728,840	1,614,407	114,433
6053	Data processing services	2,130,738	3,506,571	3,238,787	267,784
6061	Community services	1,199,880	1,192,832	1,145,724	47,108
6093	Payments to fiscal agent/member districts of shared services arrangements	133,000	138,000	138,000	-
6095	Payments to Juvenile Justice Alternative Education Program	885,705	645,705	606,215	39,490
6097	Payments to tax increment fund	1,418,612	1,730,612	1,715,083	15,529
6099	Other intergovernmental charges	-	685,800	596,346	89,454
	Debt service:				
6071	Debt service	971,700	972,700	970,066	2,634
	Capital outlay:				
6081	Facilities acquisition and construction	-	350,000	347,724	2,276
6030	Total expenditures	106,841,414	111,615,587	108,865,343	2,750,244
1100	Excess (deficiency) of revenues over (under) expenditures	-	(2,860,338)	1,287,741	(4,148,079)
	OTHER FINANCING SOURCES (USES)				
7912	Sale of real and personal property	-	473,800	1,376,300	902,500
7949	Insurance Recovery	-	-	13,678	13,678
	Total other financing sources (uses)	-	473,800	1,389,978	916,178
1200	Net change in fund balances	-	(2,386,538)	2,677,719	5,064,257
0100	Fund balances, beginning	21,954,404	23,042,492	23,042,492	-
3000	Fund balances, ending	$ 21,954,404	$ 20,655,954	$ 25,720,211	$ 5,064,257

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, 2008

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.

Expenditures exceed appropriations in the following functional category for the year ended August 31, 2008:

Fund/Function	Amount
General fund:	
0011 Instruction	$ 107,287

Supplemental Information

Waco Independent School District
Schedule of Delinquent Taxes Receivable
For the Year Ended August 31, 2008

Last Ten Years Ended August 31,	1 Tax Rates Maintenance & Operation	2 Tax Rates Debt Service	3 Assessed Appraised Value For School Tax Purposes
1999 and prior years	Various	Various	Various
2000	1.44120	0.07180	2,138,710,574
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 (school year under audit)	1.04005	0.12200	3,520,746,064
100 Totals			

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

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
428,747	-	5,220	644	(41,165)	381,718
86,169	-	1,822	91	(4,241)	80,015
96,519	-	3,380	328	226	93,037
106,685	-	5,262	450	1,030	102,003
156,916	-	22,889	1,985	12,631	144,673
208,979	-	31,433	2,650	(6,150)	168,746
323,927	-	65,542	5,470	(63,023)	189,892
560,957	-	175,907	14,420	(100,592)	270,038
1,339,180	-	523,972	48,361	(311,386)	455,461
-	40,912,830	35,674,812	4,184,728	(98,415)	954,875
3,308,078	40,912,830	36,510,239	4,259,127	(611,085)	2,840,458
59,940	1,404,602	1,234,641	144,671	(5,933)	79,297
		1,262			

Waco Independent School District

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

For the Year Ended August 31, 2008

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	$ 105	-	241,779	1,805,230	-	94,844	2,141,958
6149	Leave for separating employees in fnc 41, 53	-	-	-	-	-	-	-
6149	Leave for separating employees not in fnc 41, 53							
6211	Legal services	23,199	-	82,032	-	12,366	-	117,597
6212	Audit services	-	-	-	37,200	-	-	37,200
6213	Tax appraisal and collection	-	725,346	-	-	-	-	725,346
6219	Other professional services	-	-	-	6,885	-	-	6,885
6230	Education Service Centers	70	-	-	8,997	-	-	9,067
6240	Contracted maintenance and repairs	-	-	-	-	26,424	-	26,424
6250	Utilities	-	-	-	-	459	-	459
6260	Rentals	-	-	3,936	25,837	-	-	29,773
6290	Miscellaneous contracted services	1,555	-	13,728	109,867	-	-	125,150
6320	Textbooks and reading materials	216	-	1,109	2,687	-	-	4,012
63XX	Other supplies and materials	1,498	-	9,086	163,142	-	-	173,726
6410	Travel and stipends	10,830	-	12,780	30,053	-	-	53,663
6420	Insurance and bonding costs	-	-	-	66,203	-	-	66,203
6430	Election costs	34,288	-	-	-	-	-	34,288
6490	Miscellaneous operating costs	10,768	-	16,205	5,169	-	109,119	141,261
6600	Capital outlay	-	-	-	-	-	-	-
6000	Total	$ 82,529	725,346	380,655	2,261,270	39,249	203,963	3,693,012

Total expenditures for General and Special Revenue Funds		(9)	$	137,216,263
Less: deductions of unallowable costs:				
FISCAL YEAR				
Total capital outlay (6600 costs)	(10)	1,482,608		
Total debt and lease (6500 costs)	(11)	970,066		
Plant maintenance (function 51, 6100-6400)	(12)	14,866,249		
Food (function 35, 6341 and 6499)	(13)	3,644,519		
Column 4 (above) - total indirect cost		2,261,270		
Subtotal				23,224,712
Net allowed direct costs			$	113,991,551
CUMULATIVE				
Total cost of buildings before depreciation		(15)	$	136,037,562
Historical cost of building over 50 years old		(16)	$	28,155,536
Amount of federal money in building cost		(17)	$	-
Total cost of furniture and equipment before depreciation		(18)	$	13,824,299
Historical cost of furniture and equipment over 16 years old		(19)	$	3,031,297
Amount of federal money in furniture and equipment		(20)	$	183,731

(8) NOTE A: No function 53 expenditures are included in this report on administrative costs. $596,346 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, 2008

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)		$ 25,720,211
2	Total reserved fund balance (from Exhibit C-1 - total of object 3400s for the general fund only)	$ 922,311	
3	Total designated fund balance (from Exhibit C-1 - total of object 3500s for the general fund only)	928,059	
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)	10,201,961	
6	Estimate of delayed payments from State sources (58XX) including August payment delays	9,885,082	
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)	2,505,531	
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)		24,442,944
11	Excess (Deficit) undesignated unreserved general fund balance (line 1 minus line 10)		$ 1,277,267

This schedule represents the Texas Education Agency's standardized calculation of fund balance and cash flows for the general fund.

Waco Independent School District

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

For the Year Ended August 31, 2008

Data Control Codes		Budgeted Amounts Original	Budgeted Amounts Final	Actual	Variances With Final Budget
	REVENUES				
5700	Local and intermediate sources	$ 781,000	$ 832,267	$ 797,105	$ (35,162)
5800	State program revenues	58,000	58,000	57,960	(40)
5900	Federal program revenues	6,404,000	7,054,000	7,004,821	(49,179)
5020	Total revenues	7,243,000	7,944,267	7,859,886	(84,381)
	EXPENDITURES				
	Current:				
6035	Food services	6,819,483	7,459,883	7,450,740	9,143
6051	Plant maintenance and operations	309,213	370,080	370,042	38
6030	Total expenditures	7,128,696	7,829,963	7,820,782	9,181
1100	Excess (deficiency) of revenues over (under) expenditures	114,304	114,304	39,104	(75,200)
	OTHER FINANCING SOURCES (USES)				
7949	Insurance Recovery	-	-	2,267	2,267
	Total other financing sources (uses)	-	-	2,267	2,267
1200	Net change in fund balances	114,304	114,304	41,371	(72,933)
0100	Fund balances, beginning	9,397	302,562	302,562	-
3000	Fund balances, ending	$ 123,701	$ 416,866	$ 343,933	$ (72,933)

Waco Independent School District

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

For the Year Ended August 31, 2008

Data Control Codes		Budgeted Amounts Original	Budgeted Amounts Final	Actual	Variances With Final Budget
	REVENUES				
5700	Local and intermediate sources	$ 4,575,000	$ 4,575,000	$ 4,452,888	$ (122,112)
5800	State program revenues	2,016,183	2,016,183	2,110,829	94,646
5020	Total revenues	6,591,183	6,591,183	6,563,717	(27,466)
	EXPENDITURES				
	Current:				
6097	Payments to tax increment fund	133,406	153,406	144,900	8,506
	Debt service:				
6071	Debt service - principal on long-term debt	4,435,000	4,435,000	4,435,000	-
6072	Debt service - interest on long-term debt	2,117,016	2,045,165	1,974,286	70,879
6073	Debt service - bond issuance cost and fees	5,000	60,650	60,563	87
6030	Total expenditures	6,690,422	6,694,221	6,614,749	79,472
1100	Excess (deficiency) of revenues over (under) expenditures	(99,239)	(103,038)	(51,032)	52,006
	OTHER FINANCING SOURCES (USES)				
7911	Bonds issued	-	6,410,837	6,265,000	(145,837)
7915	Transfers in	-	-	49,908	49,908
7916	Premium on bonds issued	-	-	187,682	187,682
7917	Prepaid interest on bonds issued	-	(6,407,038)	(6,407,038)	-
	Total other financing sources (uses)	-	3,799	95,552	91,753
1200	Net change in fund balances	(99,239)	(99,239)	44,520	143,759
0100	Fund balances, beginning	1,668,090	2,003,321	2,003,321	-
3000	Fund balances, ending	$ 1,568,851	$ 1,904,082	$ 2,047,841	$ 143,759

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, 2008, which collectively comprise the Waco Independent School District's basic financial statements and have issued my report thereon dated January 12, 2009. 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 12, 2009

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, 2008. 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, 2008.

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.

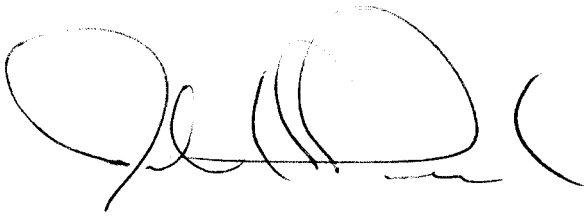
A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal 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 12, 2009

WACO INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2008

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__ 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__ 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
84.010A	**ESEA Title I, Part A**

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, 2008

Finding/Recommendation	Current Status	Management's Explanation If Not Implemented

NONE NOTED

Waco Independent School District

Schedule of Expenditures of Federal Awards

Year Ended August 31, 2008

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 Lunch Program *2	10.555	71300401	$ 4,826,212
National School Breakfast Program *2	10.553	71400401	1,677,689
Food Distribution	10.550	161026A	500,920
Summer Feeding Program	10.559	7561013	443,938
Total Passed Through the State Department of Agriculture			7,448,759
Total U.S. Department of Agriculture			7,448,759
U.S. Department of Defense			
Direct programs:			
Junior Reserve Officer Training Corp	12.000		88,322
Payments in Lieu of Taxes - Flood Control	12.112		752
Total Direct Programs			89,074
Total U.S. Department of Defense			89,074
Federal Communications Commission			
Direct programs:			
Universal E-Rate	32.000		1,720,878
Total Direct Programs			1,720,878
Total Federal Communications Commission			1,720,878
U.S. Department of Education			
Passed Through State Department of Education			
ESEA Title I, Part A - Improving Basic Programs	84.010A	08610101161914	6,255,656
ESEA Title I, Part A - Improving Basic Programs	84.010A	09610101161914	675,894
ESEA Title I, Part A - School Improvement	84.010A	08610104161914002	133,961
ESEA Title I, Part A - School Improvement	84.010A	08610104161914003	164,490
ESEA Title I, Part A - School Improvement	84.010A	08610104161914046	45,760
			7,275,761
IDEA, Part B - Formula *1	84.027	086600011619146600	2,846,421
IDEA, Part B - Formula *1	84.027	096600011619146600	211,965
SSA - IDEA, Part B - Discretionary (Deaf) *1	84.027	086600021619146673	19,749
SSA - IDEA, Part B - Discretionary (Deaf) *1	84.027	096600021619146673	223
SSA - IDEA, Part B - Formula Deaf *1	84.027	086600011619146601	14,588
SSA - IDEA, Part B - Formula Deaf *1	84.027	096600011619146601	244
			3,093,190
Passed Through State Department of Education			
Career and Technical - Basic Grant	84.048	08420006161914	293,574
Career and Technical - Basic Grant	84.048	09420006161914	73,813
			367,387

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	086610011619146610	28,198
IDEA, Part B - Preschool *1	84.173	096610011619146610	1,507
			29,705
ESEA, Title IV - Safe and Drug Free Schools	84.186A	08691001161914	111,579
ESEA, Title IV - Safe and Drug Free Schools	84.186A	09691001161914	27,200
			138,779
ESEA, Title IV, Part B - 21st Century Community	84.287	076950097110030	516,861
ESEA Title V, Part A - Innovative Programs	84.298	08685001161914	24,388
ESEA Title II, Part D - Enhancing Ed Thru Technology	84.318	08630001161914	81,607
ESEA Title II, Part D - Enhancing Ed Thru Technology	84.318	09630001161914	14,778
			96,385
Reading First	84.357	086455017110070	2,052,408
ESEA Title III, Part A - English Language Acquisition	84.365A	08671001161914	184,635
ESEA Title II, Part A - Teacher/Principal Training	84.367A	08694501161914	1,092,234
ESEA Title II, Part A - Teacher/Principal Training	84.367A	09694501161914	355,358
			1,447,592
ESEA, Title VI, Part A - Summer School LEP	84.369A	69550702	12,249
Total Passed Through State Department of Education			15,239,340
Total U.S. Department of Education			15,239,340
U.S. Department of Health and Human Services			
Passed Through Texas Workforce Commission:			
Child Care and Development Block Grant	93.575	07150C08FY02	8,371
Passed Through State Health and Human Services Commission			
Medical Assistance Program	93.778		16,385
Medical Assistance Program	93.778		14,103
			30,488
Total U.S. Department of Health and Human Services			38,859
Total Expenditures of Federal Awards			$ 24,536,910

Total Federal Program Revenues from Schedule C-3 $24,536,910

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

WACO INDEPENDENT SCHOOL DISTRICT

NOTES TO THE SCHEDULES OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED AUGUST 31, 2008

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.