

**WALNUT BEND INDEPENDENT
SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED
AUGUST 31, 2012**

WALNUT BEND INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
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Independent Auditor's Report

Board of Trustees
Walnut Bend Independent School District
47 CR 198
Gainesville, Texas 76240

Members of the Board:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Walnut Bend Independent School District (the District) as of and for the year ended August 31, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's administrators. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 27, 2012, on our consideration of Walnut Bend Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 9 and 39 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Walnut Bend Independent School District's financial statements as a whole. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The combining nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

The Texas Education Agency requires school districts to include certain information in the Annual Financial and Compliance Report in conformity with laws and regulations of the State of Texas. This information is in Exhibits identified in the Table of Contents as J-1 through J-3. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Schalk & Smith P.C." in a cursive, flowing script.

Schalk & Smith, P.C.
December 27, 2012

WALNUT BEND INDEPENDENT SCHOOL DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS

In this section of the Annual Financial and Compliance Report, we, the managers of Walnut Bend Independent School District, discuss and analyze the District's financial performance for the fiscal year ended August 31, 2012. Please read it in conjunction with, the independent auditors' report on page 2 & 3 and the District's Basic Financial Statements that begin on page 10.

FINANCIAL HIGHLIGHTS

- The District's total combined net assets were \$1,630,915 at August 31, 2012.
- The District's net assets increased by \$27,659 or 1.73 percent.
- The general fund reported a fund balance of \$920,420.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the Walnut Bend Independent School District's basic financial statements. The Walnut Bend Independent School District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the Walnut Bend Independent School District finances, in a manner similar to a private-sector business. The analysis of the District's overall financial condition and operations begins on page 10. Its primary purpose is to show whether the District is better off or worse off as a result of the year's activities.

The *statement of net assets* presents information on all of the Walnut Bend Independent School District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Walnut Bend Independent School District is improving or deteriorating. All the District's assets are reported whether they serve the current year or future years.

The *statement of activities* presents information showing how the government's net assets changed during the most recent 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. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. The District's revenues are divided into those provided by outside parties who share the costs of some programs, such as tuition received from students from outside the district and grants provided by the U.S. Department of Education for various programs (program revenues), and revenues provided by the taxpayers or by TEA in equalization funding processes (general revenues). Liabilities are considered regardless of whether they must be paid in the current or future years.

Both of the government-wide financial statements distinguish functions of the Walnut Bend Independent School District that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of

the Walnut Bend Independent School District include instruction, instructional resources & media services, guidance, counseling and evaluation services, health services, student transportation, food services, cocurricular/extracurricular activities, general administration, plant maintenance and operations, data processing services, debt service, and payments to fiscal agents. The District has no business-type activities.

Fund financial statements. The fund financial statements begin on page 12 and provide detailed information about the most significant funds—not the District as a whole. Laws and contracts require the District to establish some funds from the U.S. Department of Education. The District's administration establishes many other funds to help it control and manage money for particular purposes (like campus activities). Generally, a district would have two kinds of funds—governmental and proprietary—using different accounting approaches.

- **Governmental funds**—Most of the District's basic services are reported in governmental funds. These use modified accrual accounting (a method that measures the receipt and disbursement of cash and all other financial assets that can be readily converted to cash) and report balances that are available for future spending. The governmental fund statements provide a detailed short-term view of the District's general operations and the basic services it provides. We describe the differences between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in reconciliation schedules following each of the fund financial statements.

- **Proprietary funds**—The District reports the activities for which it charges users (whether outside customers or other units of the District) in proprietary funds using the same accounting methods employed in the Statement of Net Assets and the Statement of Activities. The District had no proprietary funds during the current year's audit.

The District's fiduciary responsibilities. The District is the trustee, or fiduciary, for money raised by student activities and alumni scholarship programs. All of the District's fiduciary activities are reported on the Statement of Fiduciary Net Assets on pages 17. We exclude these resources from the District's other financial statements because the District cannot use these assets to finance its operations. The District is only responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Notes to the financial statements. The notes to financial statements (starting on page 18) provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

The combining statements for nonmajor funds contain even more information about the District's individual funds. These are not required by TEA. The sections labeled TEA Required Schedules and Federal Awards Section contain data used by monitoring or regulatory agencies for assurance that the District is using funds supplied in compliance with the terms of grants.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Our analysis focuses on the net assets (Table I) and changes in net assets (Table II) of the District's governmental type activities. As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$1,630,915 representing an increase of \$27,659 over the prior year net assets of \$1,603,256. Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – is \$570,118 at August 31, 2012.

Investment in capital assets (e.g., land, buildings, furniture, and equipment) is \$697,166. The District uses these capital assets to provide services to students; consequently, these assets are *not* available for future spending. The balance of unrestricted net assets (\$570,118) may be used to meet the District's ongoing obligations. This surplus is not an indication that the District has significant resources available to meet financial obligations next year, but rather the result of having *long-term commitments* that are less than currently available resources. The District's total revenues decreased by approximately 9.69 percent (\$86,994). The total cost of all programs and services was \$782,841 which was approximately 9.28 percent (\$80,092) less than the previous year.

Table I
Walnut Bend Independent School District
NET ASSETS

	Governmental Activities 2012	Governmental Activities 2011
Current and other assets	\$ 988,146	\$ 955,447
Capital assets	697,166	683,848
Total assets	<u>1,685,312</u>	<u>1,639,295</u>
Long-term liabilities	-	-
Other liabilities	54,397	36,038
Total liabilities	<u>54,397</u>	<u>36,038</u>
Net Assets:		
Invested in capital assets net of related debt	697,166	683,848
Restricted	363,631	364,063
Unrestricted	570,118	555,345
Total net assets	<u>\$ 1,630,915</u>	<u>\$ 1,603,256</u>

Table II
Walnut Bend Independent School District
Changes in Net Assets

	Governmental Activities 2012	Governmental Activities 2011
Revenues:		
Program Revenues:		
Charges for Services	\$ 27,408	\$ 28,812
Operating grants and contributions	101,773	157,680
General Revenues		
Maintenance and operations taxes	263,712	255,098
Grants and Contributions not restricted to specific functions	435,556	444,808
Investment Earnings	4,536	5,322
Miscellaneous	(22,485)	5,774
Total Revenue	810,500	897,494
Expenses:		
Instruction, curriculum and media services	378,344	497,393
School leadership	53,474	58,536
Student support services	43,594	35,408
Child nutrition	90,284	81,768
Co-curricular activities	13,237	13,153
General Administration	81,891	68,343
Plant maintenance, security & data processing	104,208	89,224
Payments to Fiscal Agent	13,114	15,000
Other Intergovernmental Charges	4,695	4,108
Total Expenses	782,841	862,933
Increase in net assets	27,659	34,561
Net assets at 9/1	1,603,256	1,568,695
Net assets at 8/31	\$ 1,630,915	\$ 1,603,256

The District took actions this year to compensate for some increases in cost and to avoid the loss of state revenue due to various unfunded mandates related to various programs.

- The District maintained property tax rates of \$1.04 per \$100 of valuation. An increase in the total assessed valuation increased the District's tax revenues by \$8,614 in 2012. Based on an increase in the total assessed valuation and no changes in the property tax rate, property tax revenues are budgeted to increase by a nominal amount next year.
- The District continued a policy of strict cost controls and initiatives to reduce unnecessary expenses. However, increases in the areas of instruction, curriculum and media services, instructional and school leadership, child nutrition, co-curricular activities, plant maintenance, security and data processing which were offset by decreases in student support services,

general administration, payments to fiscal agent and other intergovernmental charges caused a slight overall decrease of \$80,092 from the prior year's total expenses.

The cost of all governmental activities this year was \$782,841. However, as shown in the Statement of Activities on page 11, the amount that our taxpayers ultimately financed for these activities through District taxes was only \$236,053 because some of the costs were paid by those who directly benefited from the programs (\$27,408) or by other governments and organizations that subsidized certain programs with grants and contributions (\$101,773) or by State equalization funding (\$435,556) or by investment earnings (\$4,536) or by miscellaneous revenues (\$-22,485).

THE DISTRICT'S FUNDS

As the District completed the year, its governmental funds (as presented in the balance sheet on page 12) reported a combined fund balance of \$923,151, which is above last year's total of \$905,212. Included in this year's total change in fund balance is an increase of \$18,370 in the District's General Fund. The primary factor contributing to the increase was a decrease in total expenditures.

Over the course of the year, the Board of Trustees revised the District's budget several times. These budget amendments fall into two categories. The first category includes amendments and supplemental appropriations that were approved shortly after the beginning of the year and reflect the actual beginning balances (versus the amounts we estimated in August 2011). The second category involved amendments moving funds from programs that did not need all the resources originally appropriated to them to programs with resource needs.

The District's General Fund balance of \$920,420 reported on page 12 differs from the General Fund's budgetary fund balance of \$902,050 reported in the budgetary comparison schedule on page 16. This is principally due to expenses were lower than the budgeted amount.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2012, the District had \$697,166 invested in a broad range of capital assets, including facilities and equipment for instruction, transportation, athletics, administration, and maintenance. The District's fiscal year 2012-13 capital budget calls for minimal expenditures and no plans to issue debt. More detailed information about the District's capital assets is presented in Note IV-G to the financial statements.

Debt

At year-end, the District had no bonds or notes outstanding.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District's elected officials considered many factors when setting the fiscal year 2012-13 budget and tax rates. Some of these factors include a considerable increase in taxable property values that allowed the District to maintain the tax rate at \$1.04 per \$100 of valuation. Budgeted expenditures are expected to increase slightly for maintenance and operations.

If these estimates are realized, the District's budgetary General Fund balance is expected to increase modestly by the close of 2013. More importantly, however, this will have been accomplished in spite of unfunded mandates.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's business office, at Walnut Bend Independent School District, 47 CR 198, Gainesville, Texas 76240.

BASIC FINANCIAL STATEMENTS

WALNUT BEND INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET ASSETS
AUGUST 31, 2012

Data Control Codes	Primary Government Governmental Activities
ASSETS	
1110 Cash and Cash Equivalents	\$ 698,039
1120 Current Investments	250,000
1210 Property Taxes - Current	25,849
1230 Allowance for Uncollectible Taxes	(15,251)
1240 Due from Other Governments	20,418
1290 Other Receivables, net	4,072
1410 Deferred Expenses	5,019
Capital Assets:	
1510 Land	55,336
1520 Buildings, Net	468,802
1530 Furniture and Equipment, Net	64,028
1590 Infrastructure, Net	109,000
1000 Total Assets	1,685,312
LIABILITIES	
2110 Accounts Payable	12,588
2150 Payroll Deductions & Withholdings	1,085
2160 Accrued Wages Payable	18,763
2180 Due to Other Governments	21,436
2200 Accrued Expenses	525
2000 Total Liabilities	54,397
NET ASSETS	
3200 Invested in Capital Assets, Net of Related Debt	697,166
3820 Restricted for Federal and State Programs	611
3860 Restricted for Capital Projects	360,900
3890 Restricted for Other Purposes	2,120
3900 Unrestricted Net Assets	570,118
3000 Total Net Assets	\$ 1,630,915

The notes to the financial statements are an integral part of this statement.

WALNUT BEND INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2012

EXHIBIT B-1

Data Control Codes	1	Program Revenues		6
		3	4	6
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Gov. Governmental Activities
Primary Government:				
GOVERNMENTAL ACTIVITIES:				
11 Instruction	\$ 370,556	\$ -	\$ 53,973	\$ (316,583)
12 Instructional Resources and Media Services	6,045	-	289	(5,756)
13 Curriculum and Staff Development	1,743	-	1,724	(19)
23 School Leadership	53,474	-	2,722	(50,752)
34 Student (Pupil) Transportation	43,594	-	1,206	(42,388)
35 Food Services	90,284	11,019	37,824	(41,441)
36 Extracurricular Activities	13,237	-	347	(12,890)
41 General Administration	81,891	-	2,600	(79,291)
51 Facilities Maintenance and Operations	103,208	16,389	1,088	(85,731)
53 Data Processing Services	1,000	-	-	(1,000)
93 Payments related to Shared Services Arrangements	13,114	-	-	(13,114)
99 Other Intergovernmental Charges	4,695	-	-	(4,695)
[TP] TOTAL PRIMARY GOVERNMENT:	\$ 782,841	\$ 27,408	\$ 101,773	(653,660)

Data Control Codes	General Revenues:		
	Taxes:		
MT	Property Taxes, Levied for General Purposes		263,712
GC	Grants and Contributions not Restricted		435,556
IE	Investment Earnings		4,536
MI	Miscellaneous Local and Intermediate Revenue		219
S2	Special Item - (Use)		(22,704)
TR	Total General Revenues & Special Items		681,319
CN	Change in Net Assets		27,659
NB	Net Assets--Beginning		1,603,256
NE	Net Assets--Ending		\$ 1,630,915

The notes to the financial statements are an integral part of this statement.

WALNUT BEND INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
AUGUST 31, 2012

Data Control Codes	10 General Fund	Major Special Revenue Fund	Other Funds	Total Governmental Funds	
ASSETS					
1110	Cash and Cash Equivalents	\$ 693,147	\$ 2,280	\$ 2,612	\$ 698,039
1120	Investments - Current	250,000	-	-	250,000
1210	Property Taxes - Current	25,849	-	-	25,849
1230	Allowance for Uncollectible Taxes (Credit)	(15,251)	-	-	(15,251)
1240	Receivables from Other Governments	12,331	1,168	6,919	20,418
1260	Due from Other Funds	5,792	-	-	5,792
1290	Other Receivables	4,072	-	-	4,072
1410	Deferred Expenditures	5,018	-	-	5,018
1000	Total Assets	<u>\$ 980,958</u>	<u>\$ 3,448</u>	<u>\$ 9,531</u>	<u>\$ 993,937</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
2110	Accounts Payable	\$ 11,133	\$ 1,229	\$ 225	\$ 12,587
2150	Payroll Deductions and Withholdings Payable	1,085	-	-	1,085
2160	Accrued Wages Payable	15,845	2,061	857	18,763
2170	Due to Other Funds	-	-	5,792	5,792
2180	Due to Other Governments	21,436	-	-	21,436
2200	Accrued Expenditures	441	39	45	525
2300	Deferred Revenues	10,598	-	-	10,598
2000	Total Liabilities	<u>60,538</u>	<u>3,329</u>	<u>6,919</u>	<u>70,786</u>
Fund Balances:					
Restricted Fund Balance:					
3450	Federal or State Funds Grant Restriction	-	119	492	611
3490	Other Restricted Fund Balance	-	-	2,120	2,120
Committed Fund Balance:					
3510	Construction	360,900	-	-	360,900
3600	Unassigned Fund Balance	559,520	-	-	559,520
3000	Total Fund Balances	<u>920,420</u>	<u>119</u>	<u>2,612</u>	<u>923,151</u>
4000	Total Liabilities and Fund Balances	<u>\$ 980,958</u>	<u>\$ 3,448</u>	<u>\$ 9,531</u>	<u>\$ 993,937</u>

The notes to the financial statements are an integral part of this statement.

WALNUT BEND INDEPENDENT SCHOOL DISTRICT
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
 STATEMENT OF NET ASSETS
 AUGUST 31, 2012

Total Fund Balances - Governmental Funds	\$	923,151
1 Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$1,372,726 and the accumulated depreciation was \$688,928. The net effect of including the beginning balances for capital assets (net of depreciation) in the governmental activities is to increase (decrease) net assets.		683,848
2 Current year capital outlays are expenditures in the fund financial statements, but they should be shown as increases in capital assets in the government-wide financial statements. The net effect of including the 2012 capital outlays to increase (decrease) net assets.		31,737
3 The 2012 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets.		(18,419)
4 Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue and eliminating interfund transactions. The net effect of these reclassifications and recognitions is to increase (decrease) net assets.		10,598
19 Net Assets of Governmental Activities	\$	1,630,915

The notes to the financial statements are an integral part of this statement.

WALNUT BEND INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2012

Data Control Codes		10 General Fund	Major Special Revenue Fund	Other Funds	Total Governmental Funds
REVENUES:					
5700	Total Local and Intermediate Sources	\$ 286,090	\$ 11,019	\$ 2,364	\$ 299,473
5800	State Program Revenues	456,668	2,875	6,609	466,152
5900	Federal Program Revenues	-	34,949	36,228	71,177
5020	Total Revenues	<u>742,758</u>	<u>48,843</u>	<u>45,201</u>	<u>836,802</u>
EXPENDITURES:					
Current:					
0011	Instruction	322,980	-	41,016	363,996
0012	Instructional Resources and Media Services	6,045	-	-	6,045
0013	Curriculum and Instructional Staff Development	19	-	1,724	1,743
0023	School Leadership	53,474	-	-	53,474
0034	Student (Pupil) Transportation	75,331	-	-	75,331
0035	Food Services	-	83,832	-	83,832
0036	Extracurricular Activities	10,226	-	3,011	13,237
0041	General Administration	81,891	-	-	81,891
0051	Facilities Maintenance and Operations	97,801	-	-	97,801
0053	Data Processing Services	1,000	-	-	1,000
Intergovernmental:					
0093	Payments to Fiscal Agent/Member Districts of SSA	13,114	-	-	13,114
0099	Other Intergovernmental Charges	4,695	-	-	4,695
6030	Total Expenditures	<u>666,576</u>	<u>83,832</u>	<u>45,751</u>	<u>796,159</u>
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>76,182</u>	<u>(34,989)</u>	<u>(550)</u>	<u>40,643</u>
OTHER FINANCING SOURCES (USES):					
7915	Transfers In	-	35,108	395	35,503
8911	Transfers Out (Use)	(35,108)	-	(395)	(35,503)
7080	Total Other Financing Sources (Uses)	<u>(35,108)</u>	<u>35,108</u>	<u>-</u>	<u>-</u>
SPECIAL ITEMS:					
8912	Special Item - (Use)	(22,704)	-	-	(22,704)
1200	Net Change in Fund Balances	18,370	119	(550)	17,939
0100	Fund Balance - September 1 (Beginning)	902,050	-	3,162	905,212
3000	Fund Balance - August 31 (Ending)	<u>\$ 920,420</u>	<u>\$ 119</u>	<u>\$ 2,612</u>	<u>\$ 923,151</u>

The notes to the financial statements are an integral part of this statement.

WALNUT BEND INDEPENDENT SCHOOL DISTRICT
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED AUGUST 31, 2012

Total Net Change in Fund Balances - Governmental Funds	\$	17,939
Current year capital outlays are expenditures in the fund financial statements, but they should be shown as increases in capital assets. in the government-wide financial statements. The net effect of removing the 2012 capital outlays is to increase net assets.		31,737
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.		(18,419)
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 lev and eliminating interfund transactions. The net effect of these reclassifications and recognitions is to increase (decrease) net assets.		(3,598)
Change in Net Assets of Governmental Activities	<u>\$</u>	<u>27,659</u>

The notes to the financial statements are an integral part of this statement.

WALNUT BEND INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED AUGUST 31, 2012

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)	
	Original	Final			
REVENUES:					
5700	Total Local and Intermediate Sources	\$ 263,866	\$ 314,403	\$ 286,090	\$ (28,313)
5800	State Program Revenues	457,457	457,457	456,668	(789)
5020	Total Revenues	721,323	771,860	742,758	(29,102)
EXPENDITURES:					
Current:					
0011	Instruction	328,198	328,198	322,980	5,218
0012	Instructional Resources and Media Services	8,615	8,615	6,045	2,570
0013	Curriculum and Instructional Staff Development	1,500	750	19	731
0023	School Leadership	58,095	58,095	53,474	4,621
0034	Student (Pupil) Transportation	34,728	78,465	75,331	3,134
0036	Extracurricular Activities	11,113	11,113	10,226	887
0041	General Administration	72,324	91,124	81,891	9,233
0051	Facilities Maintenance and Operations	136,012	130,762	97,801	32,961
0053	Data Processing Services	1,000	1,000	1,000	-
Intergovernmental:					
0093	Payments to Fiscal Agent/Member Districts of SSA	14,000	14,000	13,114	886
0099	Other Intergovernmental Charges	9,000	9,000	4,695	4,305
6030	Total Expenditures	674,585	731,122	666,576	64,546
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	46,738	40,738	76,182	35,444
OTHER FINANCING SOURCES (USES):					
8911	Transfers Out (Use)	(46,738)	(40,738)	(35,108)	5,630
7080	Total Other Financing Sources (Uses)	(46,738)	(40,738)	(35,108)	5,630
SPECIAL ITEMS:					
8912	Special Item - (Use)	-	-	(22,704)	(22,704)
1200	Net Change in Fund Balances	-	-	18,370	18,370
0100	Fund Balance - September 1 (Beginning)	902,050	902,050	902,050	-
3000	Fund Balance - August 31 (Ending)	\$ 902,050	\$ 902,050	\$ 920,420	\$ 18,370

The notes to the financial statements are an integral part of this statement.

WALNUT BEND INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
AUGUST 31,2012

Private
Purpose
Trust Fund

ASSETS

Cash and Cash Equivalents

\$ 13,477

Total Assets

\$ 13,477

LIABILITIES

Payable from Restricted Assets

\$ 13,477

Total Liabilities

\$ 13,477

The notes to the financial statements are an integral part of this statement.

WALNUT BEND INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Walnut Bend Independent School District (the District) is a public educational agency operating under the applicable laws and regulations of the State of Texas. A seven-member Board of Trustees (the Board), elected by registered voters of the District, is the governing body of the District. The District prepares its basic financial statements in conformity with generally accepted accounting principles (GAAP) promulgated by the Governmental Accounting Standards Boards (GASB) and other authoritative sources identified in *Statement on Auditing Standards No. 69* of the American Institute of Certified Public Accountants; and the District complies with the requirements of the appropriate version of the Texas Education Agency (TEA) *Financial Accountability System Resource Guide* (FASRG) and the requirements of contracts and grants of agencies from which it receives funds.

A. REPORTING ENTITY

The Board is elected by the public and it has the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has the primary accountability for fiscal matters. Therefore, the District is a financial reporting entity as defined by the GASB in its Statement No. 14, *The Reporting Entity*. There are no component units included within the reporting entity.

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* include programs supported primarily by tax revenues, State foundation funds, grants and other intergovernmental revenues. *Business-type activities* include operations that rely to a significant extent on fees and charges for support. The District has no *business-type activities*.

The Statement of Activities demonstrates how other people or entities that participate in programs the District operates have shared in the payment of the direct costs. The "charges for services" column includes payments made by parties that purchase, use, or directly benefit from goods or services provided by a given function or segment of the District. Examples include tuition paid by students not residing in the District, school lunch charges, etc. The "grants and contributions" column includes amounts paid by organizations outside the District to help meet the operational or capital requirements of a given function. Examples include grants under the Elementary and Secondary Education Act. If revenue is not program revenue, it is general revenue used to support all of the District's functions. Taxes are always general revenues.

Interfund activities between governmental funds appear as due to/due from on the Governmental Fund Balance Sheet and as other resources and other uses on the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balance. All interfund transactions between governmental 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.

The fund financial statements provide reports on the financial condition and results of operations for two fund categories: governmental 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 only the General Fund to be major and reports its financial condition and results of operations in a separate column. All other governmental funds are nonmajor and are reported as "other funds".

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as is the 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

WALNUT BEND INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2012

similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using 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 (GASB 2300.106a(5) and 1600.108), and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest and principal on long-term debt, which are recognized when due. The expenditures related to certain compensated absences and claims and judgments are recognized when the obligations are expected to be liquidated with expendable, available financial resources. The District considers all revenues available if they are collectible within 60 days after year-end.

Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State of Texas are recognized under the *susceptible-to-accrual concept*; when they are both measurable and available. The District considers these revenues "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.

Fiduciary Funds are accounted for on a flow of *economic resources measurement focus* and utilize the *accrual basis of accounting*. Revenues are recognized in the accounting period in which they are earned and become measurable and expenses are recorded in the 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 (GASB 2300.106a(7) and P80.104-107). 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.

D. FUND ACCOUNTING

The District reports the following major governmental funds:

- The **General Fund** is the District's primary operating fund. It accounts for all financial resources, except those that are required to be accounted for in another fund. Major revenue sources include local property taxes and state funding under the Foundation School Program. Expenditures include all costs associated with the daily operations of the District except for specific programs funded by the federal or state government, food service, and capital projects.
- The **Child Nutrition Program Fund** is a special revenue fund used to account for transactions related to the lunch and breakfast program. Major revenue sources include federal income for free and reduced meals and monies collected from the students for lunch and breakfast. Expenditures include all costs associated with the daily operations of the District's lunch and breakfast program.

Additionally, the District reports the following fund types:

WALNUT BEND INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2012

Governmental Funds:

- **Special Revenue Funds** account for resources restricted to, or designated for, specific purposes by the District or a grantor. Most Federal and some State financial assistance are accounted for in Special Revenue Funds. Sometimes, unused balances must be returned to the grantor at the close of specified project periods.

Fiduciary Funds:

- The **Private Purpose Trust Fund** is used to account for donations for scholarship monies. These are 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.

E. FUND BALANCE

The District has adopted GASB Statement No. 54, which redefined how fund balances of the governmental funds are presented in the financial statements. Fund balances are classified as follows:

- **Nonspendable**—Amounts that cannot be spent either because they are not in a spendable form or because they are legally or contractually required to be maintained intact.
- **Restricted**—Amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.
- **Committed**—Amounts that can be used only for specific purposes determined by a formal action by Board of Trustees policy or resolution. This includes the budget reserve account.
- **Assigned**—Amounts that are designated by the District for a specific purpose but are not spendable until a budget ordinance is passed by the Board of Trustees.
- **Unassigned**—All amounts not included in other spendable classifications.

As discussed in Note 1, restricted funds are used first as appropriate. Assigned Funds are reduced to the extent that expenditure authority has been budgeted by the Board of Trustees or the Assignment has been changed by the District. Decreases to fund balance first reduce Unassigned Fund balance; in the event that Unassigned Fund Balance becomes zero, then Assigned and Committed Fund Balances are used in that order. The details of the fund balances are included in the Governmental Funds Balance Sheet, Exhibit C-1.

F. OTHER ACCOUNTING POLICIES

1. **Cash and cash equivalents** – The District’s cash and cash equivalents are considered to be cash on hand, demand deposits, and highly liquid investments, which are investments with original maturities of three months or less from date of acquisition.
2. **Inventories** – The District does not report inventories of supplies such as consumable maintenance, instruction, office, athletic, and transportation items due to the value of these items on hand at any given date being deemed immaterial.
3. **Compensated absences** – It is the District's policy to permit some employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the District does not have a policy to pay any amounts when employees separate from service with the government. At August 31, 2011, the District had no material liability for accrued personal sick leave.
4. **Capital assets** – Capital assets, which include land, buildings, building improvements, and furniture and equipment, are reported in the applicable governmental activities columns in the government-wide financial statements. The District defines capital assets

WALNUT BEND INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2012

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 add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. When assets are retired or otherwise disposed of, the related costs or other recorded amounts are removed.

Capital assets of the District are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings	39
Building Improvements	39
Infrastructure	50
Vehicles	7
Office Equipment	5
Computer Equipment	5

The District has no restrictions on capital assets.

5. When the District incurs an expense for which it may use either restricted or unrestricted assets, it uses the restricted assets first, unless unrestricted assets will have to be returned because they were not used.
6. **Data control codes** – The data control codes refer to the account code structure prescribed by TEA in the *FASRG*. TEA requires school districts to display these codes in the financial statements filed with the Agency in order to ensure accuracy in building a statewide database for policy development and funding plans.
7. The District is exposed to various risks of loss related torts, theft, damage or destruction of assets, error and omissions, injuries to employees, and natural disasters. During fiscal year 2012, the District purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year and there were no settlements exceeding insurance coverage.

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 at the beginning of the year were as follows:

WALNUT BEND INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2012

<u>Capital Assets at the Beginning of the Year</u>	Accumulated		Net Value	Change in Net Assets
	Historic Cost	Depreciation	9/1/2011	
Land	\$ 55,336	-	\$ 55,336	
Buildings & Improvements	980,893	502,806	478,087	
Vehicles & Equipment	201,201	162,483	38,718	
Infrastructure	135,346	23,639	111,707	
	<u>\$ 1,372,776</u>	<u>688,928</u>	<u>\$ 683,848</u>	\$ 683,848

<u>Long-term Liabilities at the Beginning of the Year</u>	Balance 9/1/2011	
Long-term Liabilities	\$ -	-
Net Adjustment to Net Assets		<u>\$ 683,848</u>

B. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES AND THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

Exhibits C-2 and C-4 provide reconciliations 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. The details of this adjustment are as follows:

	Amount	Adjustments to Net Assets	Adjustments to Changes in Net Assets
<u>Current Year Capital Outlay</u>			
Total Capital Outlay	\$ 31,737	\$ 31,737	\$ 31,737
Total Adjustment to Net Assets		<u>\$ 31,737</u>	<u>\$ 31,737</u>

Other elements of the reconciliation on Exhibits C-2 and C-4 are 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 for this element are as follows:

	Amount	Adjustments to Net Assets	Adjustments to Changes in Net Assets
<u>Adjustments to Revenue and Deferred Revenue</u>			
Taxes Collected from Prior Year Levies	\$ 7,520		\$ (7,520)
Uncollected taxes (assumed collectible) from Current Year Levy	3,922	\$ 3,922	3,922
Uncollected taxes (assumed collectible) from Prior Year Levy	6,676	6,676	
Total Adjustment to Net Assets		<u>\$ 10,598</u>	<u>\$ (3,598)</u>

WALNUT BEND INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2012

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. BUDGETARY DATA

The Board adopts an "appropriated budget" on a basis consistent for GAAP for the General Fund and the Food Service Fund (which is included in the Special Revenue Funds). The District is required to present the adopted original and final amended budgeted revenues and expenditures compared to actual revenues and expenditures for each of these funds. The General Fund Budget report appears in Exhibit C-5 and the Food Service Budget report is in Exhibit J-4.

The following procedures are followed in establishing the budgetary data reflected in the general-purpose financial statements:

1. Prior to August 20th, the District prepares a budget for the next succeeding fiscal year beginning September 1st. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board is called for the purpose of adopting the proposed budget. At least ten days, but not more than 30 days public notice of the meeting is required.
3. Prior to September 1st, the Board legally enacts the budget through passage of a resolution.
4. 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, several amendments were necessary during the year, however, none of these were significant.
5. Each budget is controlled by the budget coordinator at the revenue and expenditure function/object level. Budgeted amounts are as amended by the Board. All budget appropriations lapse at year-end. The District has no fund balances for appropriated budget or non-appropriated budget special revenue funds at August 31, 2012.

B. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

There are no excess of expenditures over appropriations in the current year.

C. DEFICIT FUND EQUITY

There are no deficit fund balances in the current year.

IV. DETAILED NOTES ON ALL FUNDS

A. DEPOSITS AND INVESTMENTS

The funds of the District must be deposited and invested under the terms of a depository contract, contents of which are set out in the *Depository Contract Law*. The depository bank places approved pledged securities for safekeeping and trust with the District's agent bank in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance.

Cash Deposits

At August 31, 2012, the carrying amount of the District's cash and cash equivalents (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$620,989 and the bank balance was \$655,018. The District's cash deposits at August 31, 2012 were entirely covered by FDIC insurance and by pledged collateral held by the District's agent bank in the District's name.

WALNUT BEND INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2012

In addition, the following is disclosed regarding coverage of combined balances on the date of the highest deposit:

Depository:	Prosperity Bank	Nascoga Federal Credit Union
Market value of securities pledged as of the date of the highest combined cash balance	\$ 2,030,100	-
Highest combined balances of cash, savings and time deposits	628,433	250,000
Amount of FDIC coverage at time of highest combined balances	250,000	250,000
The District was underpledged	-0- days	-0- days

District Policies and Legal and Contractual Provisions Governing Deposits

Custodial Credit Risk for Deposits 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 was not underpledged at any time during the current fiscal year. The district was in compliance with this law at year end and therefore had no custodial credit risk for deposits.

Foreign Currency Risk The District does not make investments that have foreign currency risk.

District Policies and Legal and Contractual Provisions Governing Investments

Compliance with the Public Funds Investment Act

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, and (9) 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, and (10) common trust funds. The act also requires the District to have independent auditors perform test procedures related to investment practices as provided by the Act. Walnut Bend Independent School District is in compliance with the requirements of the Act and with local policies.

At August 31, 2012, the District had the following investments:

<u>Investment or Investment Type</u>	<u>Weighted Average Maturity (Days)</u>	<u>Fair Value</u>
Public Funds Investment Pools	N/A	\$ 340,527

WALNUT BEND INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2012

Additional policies and contractual provisions governing deposits and investments for Walnut Bend Independent School District are specified below:

Credit Risk To limit the risk that an issuer or other counterparty to an investments will not fulfill its obligations the District limits investments in: obligations of the United States or its agencies and instrumentalities; direct obligations of the state of Texas or its agencies and instrumentalities; collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; and other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the state of Texas, the United States, or their respective agencies and instrumentalities and obligations of state, agencies, counties, cities, and other political subdivision of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent. Additionally, the District authorized investments in: certificates of deposit; fully collateralized repurchase agreements; certain securities lending programs; certain bankers acceptances; certain commercial paper; certain no-load market mutual funds; certain no-load mutual funds; guaranteed investment contracts; and public funds investment pools.

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 require counterparties to register the securities in the name of the District and had them over to the district or its designated agent. This includes securities in securities lending transactions. All of the securities are in the District's name and held by the District or its agent.

Concentration of Credit Risk To limit the risk of loss attributed to the magnitude of a government's investment in a single issuer, the District shall diversify in terms of investment instruments, maturity scheduling, and financial institutions to reduce risk of loss resulting from over-concentration of assets in a specific class of investments, specific maturity, or specific issuer.

Interest Rate Risk To limit the risk that changes in interest rates will adversely affect the fair value of investments, the District requires any internally created pool fund group to have a maximum dollar weighted maturity of 180 days. The maximum allowable stated maturity of any other individual investment owned by the District shall not exceed one year from time of purchase. The Board may specifically authorize a longer maturity for a given investment, within legal limits.

Foreign Currency Risk for Investments The District does not make investments that have foreign currency risk.

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 upon 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.

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

WALNUT BEND INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2012

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 at August 31, 2012 consisted of the following individual fund balances:

Due to General Fund from:	Amount	Purpose
Nonmajor Special Revenue Funds:		
Title II, Part A Training & Recruiting	\$ 140	Grant funds expended, not received at year-end
Title VI, Part B Rural & Low Income	5,652	Grant funds expended, not received at year-end
	<u>5,792</u>	

Interfund transfers for the year ended August 31, 2012 consisted of the following individual amounts:

	Amount	Purpose
<u>To General Fund from:</u>		
Nonmajor Special Revenue Funds:		
National Lunch Program	\$ 35,108	To supplement food service program
 <u>To State Textbook Fund</u>		
Technology Allotment	395	To transfer Technology fund balance to State Textbook Fund

E. DISAGGREGATION OF RECEIVABLES AND PAYABLES

Receivables at August 31, 2012 were as follows:

	Governmental Activities			Total Receivables
	General Fund	Major Spl Revenue Child Nutrition	Nonmajor Special Rev.	
Net Property Taxes	\$ 10,598	\$ -	\$ -	\$ 10,598
Other Governments	12,331	1,168	6,919	20,418
Other Funds	5,792	-	-	5,792
Other Receivable	-	-	-	-
	<u>\$ 28,721</u>	<u>\$ 1,168</u>	<u>\$ 6,919</u>	<u>\$ 36,808</u>

Amounts Not Expected to be Collected During Subsequent Year (Included Above)

Property Taxes	<u>\$ 7,098</u>	<u>\$ -</u>	<u>-</u>	<u>\$ 7,098</u>
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Payables at August 31, 2012 were as follows:

	Governmental Activities			Total Payables
	General Fund	Major Spl Revenue Child Nutrition	Nonmajor Special Rev.	
Accounts Payable	\$ 11,133	\$ 1,229	\$ 225	\$ 12,587
Salaries & Employee Benefits	17,371	2,100	902	20,373
Other Funds	-	-	5,792	5,792
Due to State	21,436	-	-	21,436
	<u>\$ 49,940</u>	<u>\$ 3,329</u>	<u>\$ 6,919</u>	<u>\$ 60,188</u>

WALNUT BEND INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2012

F. DUE FROM OTHER GOVERNMENTS

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 federal and state governments as of August 31, 2011, are summarized below. All federal grants shown below are passed through the TEA and are reported on the combined financial statements as *Due from Other Governments*.

	General Fund	Major Special Rev-Child NutritionF	Nonmajor Special Rev. unds	Totals
State Entitlements	\$ 12,331	\$ -	\$ -	\$ 12,331
Federal Grants	-	1,168	6,919	8,087
Total	<u>\$ 12,331</u>	<u>\$ 1,168</u>	<u>\$ 6,919</u>	<u>\$ 20,418</u>

G. CAPITAL ASSET ACTIVITY

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

	Balance 9/1/2011	Increases	Reductions	Balance 8/31/2012
<u>Governmental Activities:</u>				
<u>Capital Assets Not Being Depreciated</u>				
Land	\$ 55,336	-	-	\$ 55,336
<u>Capital Assets Being Depreciated</u>				
Buildings & Improvements	980,893	-	-	980,893
Vehicles & Equipment	201,201	31,737	-	232,938
Infrastructure	135,346	-	-	135,346
	<u>1,317,440</u>	<u>31,737</u>	<u>-</u>	<u>1,349,177</u>
Less Accumulated Depreciation				
Buildings & Improvements	502,806	9,285	-	512,091
Vehicles & Equipment	162,483	6,427	-	168,910
Infrastructure	23,639	2,707	-	26,346
	<u>688,928</u>	<u>18,419</u>	<u>-</u>	<u>707,347</u>
Net Capital Assets				
Being Depreciated	<u>628,512</u>	<u>13,318</u>	<u>-</u>	<u>641,830</u>
Net Capital Assets	<u>\$ 683,848</u>	<u>13,318</u>	<u>-</u>	<u>\$ 697,166</u>

Depreciation expense was charged to governmental functions as follows:

Instruction	\$ 6,560
Food Services	6,452
Plant Maintenance & Operations	5,407
Total Depreciation Expense	<u>\$ 18,419</u>

H. BONDS PAYABLE

Bonds Payable

The District has no bonds payable at August 31, 2012.

Capital Leases

WALNUT BEND INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2012

The District has no capital lease obligations at August 31, 2012.

I. COMMITMENTS UNDER OPERATING LEASES

Operating Leases

Commitments under operating (noncapitalized) lease agreements for equipment provide for minimum future rental payments. Lease expense for operating lease agreements for the current year is \$3,864. Minimum future annual requirements are as follows:

Year Ended	Amount
<u>August 31</u>	
2013	\$ 3,220
Thereafter	-
Total	<u>\$ 3,220</u>

J. DEFERRED REVENUE

Deferred revenue at year-end consisted of the following:

	General Fund	Nonmajor Special Rev. Funds	Total
Net Property Tax Revenue	<u>\$ 15,251</u>	<u>\$ -</u>	<u>\$ 15,251</u>

K. REVENUE FROM LOCAL AND INTERMEDIATE SOURCES

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

L. ACCUMULATED UNPAID VACATION AND SICK LEAVE BENEFITS

A State minimum personal leave program consisting of five days per year of personal leave, with no limit on accumulation and no restrictions on transfer among districts, is provided for District employees. All employees who are eligible for State personal leave also earn an additional five workdays of local sick leave per year. Local sick leave is noncumulative. Unused local sick leave is not paid or transferred upon separation of service from the District. The District has not recorded a liability for accumulated sick leave since the amount is not considered material.

Full-term employees (employees with 12-month appointments) are eligible for paid vacation leave. Vacation time is accrued as follows: one week after one year of employment; two weeks after three years of continuous employment; and three weeks after eight years of continuous employment. Unused vacation leave is not carried forward. The District has not recorded a liability for accumulated vacation since the amount is not considered material.

M. PENSION PLAN

Plan Description. The District contributes to the Teacher Retirement System of Texas (TRS), a cost sharing multiple employer defined benefit pension plan. TRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems of Texas. It operates primarily under the provisions of the Texas Constitution, Article XVI, Sec. 67, and Texas Government Code, Title 8, Subtitle C. TRS also administers proportional retirement benefits and service credit transfer under Texas Government Code, Title 8, Chapters 803 and 805, respectively. The Texas state legislature has the authority to establish and amend benefit provisions of the pension plan and may, under certain circumstances, grant special authority to the TRS Board of Trustees. TRS issues a

WALNUT BEND INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2012

publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report may be obtained by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701, by calling the TRS Communications Department at 1-800-223-8778, or by downloading the report from the TRS Internet website, www.trs.state.tx.us, under the TRS Publications heading.

Funding Policy. Contribution requirements are not actuarially determined but are established and amended by the Texas state legislature. The state funding policy is as follows: (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. (2) A state statute prohibits benefit improvements or contribution reductions if, as a result of a 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.

Contribution rates and contributions for fiscal years 2010-2012 are shown in the table below. These rates are set by the General Appropriations Act. In certain instances, the reporting district is required to make all or a portion of the state's and or member's contribution and on the portion of the employee's salaries that exceeded the statutory minimum.

Year	Member		State		Statutory Minimum Amount
	Rate	Amount	Rate	Amount	Amount
2012	6.4%	23304	6.0%	\$ 19,247	2,106
2011	6.4%	29,594	6.0%	\$ 27,640	3,716
2010	6.4%	31,168	6.0%	29,220	3,691

N. MEDICARE PART D

The Medicare Prescription Drug, Improvement and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for the Texas Public School Retired Employee Group Insurance Program (TRS-Care) to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. These on-behalf payments are shown on the table following.

	For the Years Ended August 31,		
	2012	2011	2010
TRS on Behalf Medicare Part D	\$ 1,865	\$ 1,152	\$ 1,138

O. 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 postemployment health care plan administered by the Teacher Retirement System of Texas. TRS-Care provides health care coverage for certain persons (and their dependents) who retired under the Teacher Retirement System of Texas. 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 Teacher Retirement System of Texas issues a publicly available financial report that includes financial statements and required supplementary information for TRS-Care. That report may be obtained by visiting the TRS Web site at www.trs.state.tx.us under the TRS Publications heading, by writing to the Communications Department of the Teacher Retirement System of Texas at 1000 Red River Street, Austin, Texas 78701, or by calling the TRS Communications Department at 1-800-223-8778.

WALNUT BEND INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2012

Funding Policy. Contribution requirements are not actuarially determined but are legally 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 payroll set at 0.55% for fiscal years 2012, 2011 and 2010. 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 amounts are reflected on the following table:

	For the Years Ended August 31,		
	2012	2011	2010
State's Contributions	\$ 3,649	\$ 4,624	\$ 5,516
Employee Contributions	2,372	3,005	3,586
District Contributions	2,007	2,543	3,034

P. HEALTH CARE COVERAGE

The District is a participating member in the Texas School Employees Uniform Group Health Coverage Program (TRS-Active Care). TRS-Active Care is a group health insurance program (the Plan) in which, by statute, all school districts with 500 or fewer employees are required to participate.

During the year ended August 31, 2012, the District paid premiums of \$225 per month per employee to the Plan (employees at their own option, may authorize payroll withholdings to pay premiums for dependents). "Employee" means a participating member of the Teacher Retirement System of Texas who is employed by a participating member.

Q. RELATED ORGANIZATIONS

The District has no related organizations as defined by *Governmental Accounting Standards Board Statement Number 14*.

R. CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS AND CONTINGENCIES

None

S. JOINT VENTURE-SHARED SERVICE ARRANGEMENTS

The District participates in a Shared Services Arrangement (SSA) styled the Cooke County Special Education Cooperative. Although 1.43% of the activity of the Co Op is attributable to the District's participation, the District does not account for revenues or expenditures in this program and does not disclose them in these financial statements. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, Callisburg ISD, nor does the District have a net equity interest in the fiscal agent. The fiscal agent is neither accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to the District. The fiscal agent manager is responsible for all financial activities of the SSA. Presented below are the revenues and expenditures attributable to the District's participation.

WALNUT BEND INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2012

		Local	Federal	
		Special Education 437	IDEA-B Formula 313	IDEA-B Preschool 314
Revenues:				
57xx-59xx	Local Source Revenues	\$ 12,017	\$ -	\$ -
5929	Federal Revenue Distributed by TEA	-	11,592	469
Expenditures:				
6100	Payroll Costs	9,591	8,984	469
6200	Consulting Services	1,960	507	-
6300	Supplies and Materials	258	276	-
6400	Other Operating Expenditures	208	218	-
6600	Capital Outlay	-	1,607	-

T. SUBSEQUENT EVENTS

The District's management has evaluated subsequent events through December 27, 2012, the date which the financial statements were available for issue.

COMBINING STATEMENTS

WALNUT BEND INDEPENDENT SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 AUGUST 31, 2012

Data Control Codes	255 ESEA II,A Training and Recruiting	270 ESEA VI, Pt B Rural & Low Income	287 Education Jobs Fund	289 Other Federal Special Revenue Funds
ASSETS				
1110	\$ -	\$ -	\$ -	\$ -
1240	365	6,554	-	-
1000	<u>\$ 365</u>	<u>\$ 6,554</u>	<u>\$ -</u>	<u>\$ -</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
2110	\$ 225	\$ -	\$ -	\$ -
2160	-	857	-	-
2170	140	5,652	-	-
2200	-	45	-	-
2000	<u>365</u>	<u>6,554</u>	<u>-</u>	<u>-</u>
Fund Balances:				
Restricted Fund Balance:				
3450	-	-	-	-
3490	-	-	-	-
3000	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
4000	<u>\$ 365</u>	<u>\$ 6,554</u>	<u>\$ -</u>	<u>\$ -</u>

410 State Textbook Fund	411 Technology Allotment	461 Campus Activity Funds	Total Nonmajor Governmental Funds
\$ 492	\$ -	\$ 2,120	\$ 2,612
-	-	-	6,919
<u>\$ 492</u>	<u>\$ -</u>	<u>\$ 2,120</u>	<u>\$ 9,531</u>
\$ -	\$ -	\$ -	\$ 225
-	-	-	857
-	-	-	5,792
-	-	-	45
<u>-</u>	<u>-</u>	<u>-</u>	<u>6,919</u>
492	-	-	492
-	-	2,120	2,120
<u>492</u>	<u>-</u>	<u>2,120</u>	<u>2,612</u>
<u>\$ 492</u>	<u>\$ -</u>	<u>\$ 2,120</u>	<u>\$ 9,531</u>

WALNUT BEND INDEPENDENT SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED AUGUST 31, 2012

Data Control Codes	255 ESEA II,A Training and Recruiting	270 ESEA VI, Pt B Rural & Low Income	287 Education Jobs Fund	289 Other Federal Special Revenue Funds
REVENUES:				
5700 Total Local and Intermediate Sources	\$ -	\$ -	\$ -	\$ -
5800 State Program Revenues	-	-	-	-
5900 Federal Program Revenues	2,558	21,624	12,046	-
5020 Total Revenues	<u>2,558</u>	<u>21,624</u>	<u>12,046</u>	<u>-</u>
EXPENDITURES:				
Current:				
0011 Instruction	834	21,624	12,046	-
0013 Curriculum and Instructional Staff Development	1,724	-	-	-
0036 Extracurricular Activities	-	-	-	-
6030 Total Expenditures	<u>2,558</u>	<u>21,624</u>	<u>12,046</u>	<u>-</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
OTHER FINANCING SOURCES (USES):				
7915 Transfers In	-	-	-	-
8911 Transfers Out (Use)	-	-	-	-
7080 Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
1200 Net Change in Fund Balance	-	-	-	-
0100 Fund Balance - September 1 (Beginning)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

410 State Textbook Fund	411 Technology Allotment	461 Campus Activity Funds	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ 2,364	\$ 2,364
6,609	-	-	6,609
-	-	-	36,228
6,609	-	2,364	45,201
6,512	-	-	41,016
-	-	-	1,724
-	-	3,011	3,011
6,512	-	3,011	45,751
97	-	(647)	(550)
395	-	-	395
-	(395)	-	(395)
395	(395)	-	-
492	(395)	(647)	(550)
-	395	2,767	3,162
\$ 492	\$ -	\$ 2,120	\$ 2,612

REQUIRED TEA SCHEDULES

WALNUT BEND INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF DELINQUENT TAXES RECEIVABLE
 FISCAL YEAR ENDED AUGUST 31, 2012

Last 10 Years Ended August 31	(1)	(2)	(3)
	Tax Rates		Assessed/Appraised Value for School Tax Purposes
	Maintenance	Debt Service	
2003 and prior years	\$ 1.500000	\$ 0.000000	\$ 10,694,771
2004	1.500000	0.000000	9,747,241
2005	1.500000	0.000000	10,465,871
2006	1.500000	0.000000	12,459,277
2007	1.369990	0.000000	20,167,812
2008	1.040000	0.000000	19,829,463
2009	1.040000	0.000000	39,160,347
2010	1.040000	0.000000	27,702,490
2011	1.040000	0.000000	24,382,768
2012 (School year under audit)	1.040000	0.000000	25,325,838
1000 TOTALS			

(10) Beginning Balance 9/1/2011	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance 8/31/2012
\$ 16,598	\$ -	\$ -	\$ -	\$ (4,393)	\$ 12,205
506	-	7	-	38	537
538	-	11	-	122	649
647	-	25	-	225	847
872	-	46	-	188	1,014
1,060	-	334	-	(14)	712
1,046	-	1,403	-	2,052	1,695
3,097	-	873	-	(86)	2,138
3,010	-	2,085	-	1,205	2,130
4,463	263,389	259,083	-	(4,847)	3,922
<u>\$ 31,837</u>	<u>\$ 263,389</u>	<u>\$ 263,867</u>	<u>\$ -</u>	<u>\$ (5,510)</u>	<u>\$ 25,849</u>

WALNUT BEND INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES FOR COMPUTATIONS OF INDIRECT COST FOR 2013-2014
 GENERAL AND SPECIAL REVENUE FUNDS
 AUGUST 31, 2012

FUNCTION 41 AND RELATED FUNCTION 53 - GENERAL ADMINISTRATION, 99 - APPRAISAL DISTRICT COST

Account Number	Account Name	1	2	3	4	5	6	7
		(702) School Board	(703) Tax Collections	(701) Supt's Office	(750) Indirect Cost	(720) Direct Cost	(other) Miscellaneous	Total
611X-6146	PAYROLL COSTS	\$ -	\$ -	\$ 20,207	\$ -	\$ -	\$ -	\$ 20,207
6149	Leave for Separating Employees in Fn 41 & 53	-	-	-	-	-	-	-
6149	Leave - Separating Employees not in 41 & 53	-	-	-	-	-	-	-
6211	Legal Services	-	-	-	-	-	-	-
6212	Audit Services	8,300	-	-	-	-	-	8,300
6213	Tax Appraisal/Collection - Appraisal in Fn 99	-	5,322	-	-	-	-	5,322
6214	Lobbying	-	-	-	-	-	-	-
621X	Other Professional Services	-	-	21,615	-	-	-	21,615
6220	Tuition and Transfer Payments	-	-	-	-	-	-	-
6230	Education Service Centers	980	-	22,271	-	-	-	23,251
6240	Contr. Maint. and Repair	-	-	-	-	-	-	-
6250	Utilities	-	-	-	-	-	-	-
6260	Rentals	-	-	-	-	-	-	-
6290	Miscellaneous Contr.	-	-	-	-	-	-	-
6320	Textbooks and Reading	-	-	-	-	-	-	-
6330	Testing Materials	-	-	-	-	-	-	-
63XX	Other Supplies Materials	149	-	133	-	-	-	282
6410	Travel, Subsistence, Stipends	-	-	447	-	-	-	447
6420	Ins. and Bonding Costs	-	-	101	-	-	-	101
6430	Election Costs	-	-	-	-	-	-	-
6490	Miscellaneous Operating	-	-	7,061	-	-	-	7,061
6500	Debt Service	-	-	-	-	-	-	-
6600	Capital Outlay	-	-	-	-	-	-	-
6000	TOTAL	\$ 9,429	\$ 5,322	\$ 71,835	\$ -	\$ -	\$ -	\$ 86,586
Total expenditures/expenses for General and Special Revenue Funds:							(9) \$	796,159
LESS: Deductions of Unallowable Costs								
FISCAL YEAR								
Total Capital Outlay (6600)							(10) \$	31,737
Total Debt & Lease(6500)							(11)	-
Plant Maintenance (Function 51, 6100-6400)							(12)	97,801
Food (Function 35, 6341 and 6499)							(13)	28,100
Stipends (6413)							(14)	-
Column 4 (above) - Total Indirect Cost								-
SubTotal:								157,638
Net Allowed Direct Cost							\$	638,521
CUMULATIVE								
Total Cost of Buildings before Depreciation (1520)							(15) \$	980,893
Historical Cost of Building over 50 years old							(16) \$	465,817
Amount of Federal Money in Building Cost (Net of #16)							(17) \$	-
Total Cost of Furniture & Equipment before Depreciation (1530 & 1540)							(18) \$	232,938
Historical Cost of Furniture & Equipment over 16 years old							(19) \$	-
Amount of Federal Money in Furniture & Equipment (Net of #19)							(20) \$	-

(8) NOTE A: No Function 53 expenditures are included in this report on administrative costs.
 \$4,695 in Function 99 expenditures for appraisal district costs are included in this report on administrative costs.

WALNUT BEND INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL - CHILD NUTRITION PROGRAM
 FOR THE YEAR ENDED AUGUST 31, 2012

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 10,267	\$ 11,267	\$ 11,019	\$ (248)
5800 State Program Revenues	-	2,875	2,875	-
5900 Federal Program Revenues	29,000	34,000	34,949	949
5020 Total Revenues	39,267	48,142	48,843	701
EXPENDITURES:				
0035 Food Services	86,005	88,880	83,832	5,048
6030 Total Expenditures	86,005	88,880	83,832	5,048
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	(46,738)	(40,738)	(34,989)	5,749
OTHER FINANCING SOURCES (USES):				
7915 Transfers In	46,738	40,738	35,108	(5,630)
7080 Total Other Financing Sources (Uses)	46,738	40,738	35,108	(5,630)
1200 Net Change in Fund Balances	-	-	119	119
0100 Fund Balance - September 1 (Beginning)	-	-	-	-
3000 Fund Balance - August 31 (Ending)	\$ -	\$ -	\$ 119	\$ 119

FEDERAL AWARDS SECTION



**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
Walnut Bend Independent School District
47 County Road 198
Gainesville, Texas 76240

Members of the Board:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Walnut Bend Independent School District (the District), as of and for the year ended August 31, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 27, 2012.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Walnut Bend Independent School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Walnut Bend Independent School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Walnut Bend 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 and correct misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies that adversely affects the entity'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 entity's financial statements that is more than inconsequential will not be prevented, or detected by the entity's internal control.

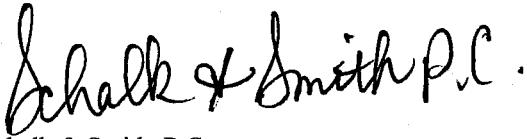
A material weakness is a significant deficiency or combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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

Compliance and Other Matters

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

This report is intended solely for the information and use of the district's trustees, the audit committee, the administration, Texas Education Agency, 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.

A handwritten signature in black ink that reads "Schalk & Smith P.C." in a cursive, flowing script.

Schalk & Smith, P.C.
December 27, 2012

**WALNUT BEND INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2012**

Section I-Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: UNQUALIFIED

Internal control over financial reporting:

- Material weakness identified? _____ yes X no
- Significant deficiency identified? _____ yes X none reported
- Noncompliance material to financial statements noted? _____ yes X no

Under the guidelines of OMB Circular A-133, a Single Audit was not required for the year ended August 31, 2012.

Section II – Financial Statement Findings-NONE

Section III – Federal Award findings and Questioned Costs-NONE

SCHEDULE OF PRIOR YEAR FINDINGS

None

CORRECTIVE ACTION PLAN

None