

**PASADENA INDEPENDENT  
SCHOOL DISTRICT**

**ANNUAL FINANCIAL AND  
COMPLIANCE REPORT**

**For The Year Ended August 31, 2012**



**PASADENA INDEPENDENT SCHOOL DISTRICT**  
**TABLE OF CONTENTS**

	<u>Page</u>	<u>Exhibit</u>
<b>Certificate Of Board</b>	i	
<b>Financial Section</b>		
Report of Independent Auditors	1	
Management’s Discussion and Analysis	5	
<b>Basic Financial Statements:</b>		
Government-wide Financial Statements		
Statement of Net Assets	16	A-1
Statement of Activities	17	B-1
Governmental Fund Financial Statements		
Balance Sheet	18	C-1
Reconciliation of Balance Sheet for Governmental Funds to Statement of Net Assets	21	C-2
Statement of Revenues, Expenditures, and Changes In Fund Balance	22	C-3
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities	24	C-4
Proprietary Fund Financial Statements		
Statement of Net Assets	25	D-1
Statement of Revenues, Expenses, and Changes In Fund Net Assets	26	D-2
Statement of Cash Flows	27	D-3
Fiduciary Fund Financial Statements		
Statement of Fiduciary Net Assets	28	E-1
Notes to the Financial Statements	29	F-1
<b>Required Supplementary Information:</b>		
Budgetary Comparison Schedule - General Fund	55	G-1
Notes to Required Supplementary Information	56	G-2
<b>Other Supplementary Information:</b>		
Combining Fund Statements:		
Non-major Governmental Funds		
Combining Balance Sheet	58	H-1
Combining Statement of Revenues, Expenditures, and Changes In Fund Balance	66	H-2
Internal Service Funds		
Combining Statement of Net Assets	74	H-3
Combining Statement of Revenues, Expenses, and Changes In Net Assets	75	H-4
Combining Statement of Cash Flows	76	H-5
<b>Required TEA Schedules:</b>		
Schedule of Delinquent Taxes Receivable	78	J-1
Schedule of Expenditures For Computation of Indirect Costs For 2013-2014	80	J-2

**PASADENA INDEPENDENT SCHOOL DISTRICT**

**TABLE OF CONTENTS (continued)**

	<u>Page</u>	<u>Exhibit</u>
<b>Financial Section (continued)</b>		
<b>Required TEA Schedules (continued):</b>		
Fund Balance and Cash Flow Calculation Schedule (Unaudited) - General Fund	81	J-3
Budgetary Comparison Schedule - Child Nutrition Program Fund	82	J-4
Budgetary Comparison Schedule - Debt Service Fund	83	J-5
<b>Federal Awards Section</b>		
Independent Auditors' Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Basic Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	87	
Independent Auditors' Report on Compliance with Requirements that Could have a Direct and Material Effect on each Major Program and Internal Control over Compliance in Accordance with <i>OMB Circular A-133</i>	89	
Schedule of Findings and Questioned Costs	91	
Schedule of Expenditures of Federal Awards	93	K-1
Notes to Schedule of Expenditures of Federal Awards	95	K-2

**CERTIFICATE OF BOARD**

Pasadena Independent School District  
Name of School District

Harris  
County

101-917  
Co. - Dist. No.

We, the undersigned, certify that the attached annual financial reports of the above named school district were reviewed and approved for the year ended August 31, 2012, at a meeting of the board of trustees of such school district on January 22, 2013.

  
\_\_\_\_\_  
President of the Board

  
\_\_\_\_\_  
Secretary of the Board



**FINANCIAL SECTION**





## REPORT OF INDEPENDENT AUDITORS

To the Board of Trustees  
Pasadena Independent School District  
Pasadena, Texas

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Pasadena 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 District's management. 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 22, 2013, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

To the Board of Trustees  
Pasadena Independent School District  
Pasadena, Texas  
Page 2

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 5 through 13 and 54 through 55 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The combining and individual nonmajor fund financial statements and required Texas Education Agency (the "TEA") schedules are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



Texas City, Texas  
January 22, 2013

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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## **PASADENA INDEPENDENT SCHOOL DISTRICT**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

As management of the Pasadena 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 District for the fiscal year ended August 31, 2012.

#### **Financial Highlights**

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$427,564,465 (*net assets*). Of this amount, \$105,563,252 (*unrestricted net assets*) may be used to meet the District's ongoing obligations to students and creditors.
- The District's total net assets increased by \$8,306,597.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$237,498,641 , an increase of \$83,015,997 in comparison with the prior year. The increase in governmental fund balances was primarily due to the increase in the capital projects fund of \$73,473,882 .
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$47,802,710, or 13% percent of total general fund expenditures.
- The District's total bonded debt increased by \$70,335,000 (17%) during the current fiscal year.

#### **Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains required supplementary information and other supplementary information in addition to the basic financial statements.

#### **Government-wide Financial Statements**

The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *Statement of Net Assets* presents information on all of the 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 the District is improving or deteriorating.

The *Statement of Activities* presents information showing how the District'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*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused sick leave).

**PASADENA INDEPENDENT SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

The government-wide financial statements of the District are principally supported by taxes and intergovernmental revenues (*governmental activities*). The governmental activities of the District include Instruction, Instructional Resources and Media Services, Curriculum and Instructional Staff Development, Instructional Leadership, School Leadership, Guidance, Counseling, and Evaluation Services, Social Work Services, Health Services, Student Transportation, Food Services, Cocurricular/Extracurricular Activities, General Administration, Plant Maintenance and Operations, Security and Monitoring Services, Data Processing Services, Community Services, Interest on Long-term Debt, Bond Issuance Costs and Fees, Facilities Acquisition and Construction, and Payments to Juvenile Justice Alternative Education Programs.

The government-wide financial statements can be found on pages 16 through 17 of this report.

**Fund Financial Statements**

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District 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 near-term inflows and outflows of spendable resources, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a District's near-term financing requirements.

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 fund balance sheet and the governmental fund 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 thirty-six individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, debt service fund, and the capital projects fund, all of which are considered to be major funds. Data from the other thirty-two governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in the financial statements. The District adopts an annual appropriated budget for its general fund, debt service fund, and National School Breakfast and Lunch Program special revenue fund.

The basic governmental fund financial statements can be found on pages 18 through 24 of this report.

**PASADENA INDEPENDENT SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

**Proprietary Fund**

The District maintains an internal service fund, one type of proprietary fund. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the District's various funds and functions. The District uses an internal service fund to account for its self-funded health insurance and worker's compensation. Because this service predominantly benefits governmental functions, it has been included within *governmental activities* in the government-wide financial statements.

Proprietary fund statements provide the same type of information as the government-wide financial statements, only in more detail. The internal service fund financial statements provide separate information for the Health Insurance Fund and Worker's Compensation Fund.

The basic proprietary fund financial statements can be found on pages 25 through 27 of this report.

**Fiduciary Fund**

The fiduciary fund is used to account for resources held for the benefit of students. The fiduciary fund is *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the District's own programs. The fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operation.

The basic fiduciary fund financial statement can be found on page 28 of this report.

**Notes to the Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 29 through 52 of this report.

**Required Supplementary Information**

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information that further explains and supports the information in the financial statements. The required supplementary information relates to comparison of the original adopted budget, the final amended budget, and the actual amounts for the fiscal year. This is required supplementary information for the general fund and any major special revenue funds. The District did not have any major special revenue funds; therefore, only the general fund is presented as required supplementary information. The required supplementary information can be found on pages 55 through 56 of this report.

**Other Information**

The combining and individual fund statements and schedules and other supplementary information are presented immediately following the required supplementary information and can be found on pages 58 through 76 of this report.

**PASADENA INDEPENDENT SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

**Government-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a District's financial position. In the case of the District, assets exceeded liabilities by at the close of the most recent fiscal year.

The largest portion of the District's net assets (\$249,185,456) reflects its investment in capital assets (e.g., capitalized bond and debt issuance costs, land, buildings and improvements, furniture and equipment, construction in progress), less any outstanding related debt used to acquire those assets. The District uses these capital assets to provide services to students; consequently, these assets are *not* available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**Pasadena Independent School District's Net Assets**

	<b>2012</b>	<b>2011</b>
Current and other assets	276,670,957	186,928,424
Capital and non current assets	679,103,827	669,178,327
<b>Total Assets</b>	<b>955,774,784</b>	<b>856,106,751</b>
<b>Total Deferred Outflows of Resources</b>	<b>25,515,802</b>	<b>19,232,444</b>
Current liabilities	19,816,429	38,701,193
Long term liabilities	508,393,890	425,298,690
<b>Total Liabilities</b>	<b>528,210,319</b>	<b>463,999,883</b>
<b>Total Deferred Inflow of Resources</b>	<b>25,515,802</b>	<b>19,232,444</b>
<b>Net Assets:</b>		
Invested in capital assets net of related debt	249,185,456	236,149,687
Restricted	72,815,757	58,104,519
Unrestricted	105,563,252	97,852,662
<b>Total Net Assets</b>	<b>427,564,465</b>	<b>\$ 392,106,868</b>

Net assets (\$72,815,757) are restricted for state and federal programs, debt service, campus activities and local grants. The remaining balance of *unrestricted net assets* (\$105,563,252) may be used to meet the District's ongoing obligations to students and creditors. The District's net assets increased by \$8,306,597 during the current fiscal year primarily due to the issuance of long-term debt for capital projects.



**PASADENA INDEPENDENT SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

**Pasadena Independent School District's Changes in Net Assets**

	<b>2012</b>	<b>2011</b>	<b>Percentage Change</b>
<b>Program Revenues</b>			
Charges for services	\$ 13,275,908	\$ 13,978,344	-5%
Operating grants	96,450,142	122,259,463	-21%
<b>General Revenues</b>			
Property taxes	128,479,217	127,720,147	1%
State aid	256,929,981	238,000,383	8%
Grants and contributions not restricted	677,646	1,092,639	-38%
Interest earnings	293,962	1,325,113	-78%
Other	786,800	1,940,617	-59%
<b>Total Revenues</b>	<b>\$ 496,893,656</b>	<b>\$ 506,316,706</b>	<b>-2%</b>
<b>Expenses</b>			
Instruction	279,481,563	281,367,024	-1%
Instructional resources and media services	6,151,309	6,387,688	-4%
Curriculum and staff development	7,239,584	7,621,886	-5%
Instructional leadership	5,187,804	6,251,276	-17%
School leadership	31,598,938	32,895,017	-4%
Guidance, counseling, and evaluation services	18,933,163	19,634,366	-4%
Social work services	220,407	233,151	-5%
Health services	4,349,259	4,643,035	-6%
Student transportation	12,026,790	12,559,177	-4%
Food service	28,081,754	27,838,575	1%
Extracurricular activities	7,381,304	6,757,699	9%
General administration	10,170,769	10,361,767	-2%
Plant, maintenance and operations	46,124,950	47,322,211	-3%
Security and monitoring services	4,457,814	4,907,271	-9%
Data processing services	5,687,778	4,956,293	15%
Community services	185,536	293,667	-37%
Interest on long-term debt	19,241,431	17,443,988	10%
Principal Payments	920,470	784,974	17%
Facilities acquisition and construction	37,456		100%
Payments to Juvenile Justice Alternative Education Programs	63,133	355,238	-82%
Other governmental charges	1,045,847	1,086,952	-4%
<b>Total Expenses</b>	<b>488,587,059</b>	<b>493,701,255</b>	<b>-1%</b>
Increase (Decrease) in Net Assets	8,306,597	12,615,451	-34%
Beginning Net Assets	419,257,868	406,642,417	3%
<b>Ending Net Assets</b>	<b>\$ 427,564,465</b>	<b>\$ 419,257,868</b>	<b>2%</b>

**PASADENA INDEPENDENT SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

**Governmental Activities**

Governmental activities increased the District's net assets by \$8,306,597. Key elements of this increase are as follows:

Revenues are generated primarily from three sources. Grants and contributions (program and general revenues) totaling \$97,127,788 represent 20 percent of total revenues, property taxes totaling \$128,479,217 represent 26 percent of total revenues and state-aid formula grants in the current year of \$256,929,981 made up 52 percent of total revenues. The remaining \$14,356,670 is generated from charges for services, investment earnings, and miscellaneous revenues.

The primary functional expense of the District is instruction (\$279,481,563), which represents 57 percent of total expenses. Plant maintenance and operations (\$46,124,950) represents 9 percent of total expenses. The remaining individual functional categories of expenses are each less than seven percent of total expenses.

**Financial Analysis of the Government's Funds**

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental Funds**

The focus of the District's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the District's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a District's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$237,498,641, an increase of \$83,015,997 in comparison with the prior year. Although, the general fund had a decrease in fund balance, the increase in ending governmental fund balances is primarily due to an increase in fund balance of the capital projects and debt service fund.

The general fund is the chief operating fund of the District. At the end of the current fiscal year, unassigned fund balance of the general fund was \$47,802,710, while total fund balance reached \$90,772,800. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 13% of total general fund expenditures, while total fund balance represents 25% of that same amount.

The fund balance of the District's general fund decreased by \$2,081,416 during the current fiscal year, primarily due to additional expenditures for district funded health insurance costs.

The debt service fund has a total fund balance of \$61,963,266 all of which is reserved for the payment of debt service. The net increase in the debt service fund balance during the current year of \$9,368,345 was attributable to favorable swap agreements amendments, additional state funding and lower variable bond interest costs.

**PASADENA INDEPENDENT SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

The capital projects fund has a total fund balance of \$73,829,010, all of which is restricted for authorized construction and technology projects/enhancements. The net increase in fund balance during the current year of \$73,473,882 was primarily due to the issuance of debt for capital projects.

**Proprietary Fund**

The District's proprietary fund financial statements, internal service funds for health insurance and worker's compensation, provide detail information about the profitability of the funds. The net change in assets of the funds is eliminated and allocated to the governmental expenses in the government-wide financial statements.

**General Fund Budgetary Highlights**

Differences between the original budget and the final amended budget of the general fund can be briefly summarized as follows:

	<b>Budget</b>	
	<b>Original</b>	<b>Final Amended</b>
Total revenues	\$ 372,468,170	\$ 365,070,439
Total expenditures	372,468,170	378,467,597
Net change in fund balance	\$	\$ (13,397,158)

Budgeted revenues decreased due to \$8.7 million of the Federal Education Jobs funding being transferred from the General Fund to a Special Revenue Fund.

Budgeted expenditures increased primarily due to funds from fund balance used for land purchases, miscellaneous construction and renovation projects, and additional cost of gasoline for student transportation.

**Capital Assets and Long-Term Liabilities**

**Capital Assets**

The District's investment in capital assets for its governmental type activities as of August 31, 2012, amounts to \$676,922,339 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, furniture and equipment and construction in progress. The total increase in the District's investment in capital assets for the current fiscal year was \$8,602,470.

**PASADENA INDEPENDENT SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

	Balance (as restated) August 31, 2011	Additions	(Retirements) and Transfers	Balance August 31, 2012
Capital assets, not being depreciated				
Land	\$ 53,450,073	\$ 6,431,715	\$ (140,932)	\$ 59,740,856
Construction in progress	166,542	5,012,501		5,179,043
<b>Total Capital Assets, not being depreciated</b>	<u>53,616,615</u>	<u>11,444,216</u>	<u>(140,932)</u>	<u>64,919,899</u>
Capital assets, being depreciated				
Buildings and improvements	793,191,717	10,480,102	(70,486)	803,601,333
Furniture and equipment	95,942,681	7,310,734	(252,939)	103,000,476
<b>Total Capital Assets, being depreciated</b>	<u>889,134,398</u>	<u>17,790,836</u>	<u>(323,425)</u>	<u>906,601,809</u>
Less accumulated depreciation for:				
Buildings and improvements	(207,059,139)	(14,375,747)	70,486	(221,364,400)
Furniture and Equipment	(67,372,005)	(6,115,903)	252,939	(73,234,969)
<b>Total Accumulated Depreciation</b>	<u>(274,431,144)</u>	<u>(20,491,650)</u>	<u>323,425</u>	<u>(294,599,369)</u>
<b>Governmental Capital Assets</b>	<u>\$668,319,869</u>	<u>\$ 8,743,402</u>	<u>\$ (140,932)</u>	<u>\$ 676,922,339</u>

Additional information on the District's capital assets can be found in Note 4 on pages 38 through 39 of the notes to the financial statements.

**Long-Term Liabilities**

At the end of the current fiscal year, the District had \$ 488,300,000 in bonded debt outstanding, an increase of \$70,335,000 over the previous year. The District's bonds are sold with a "AAA" rating and are guaranteed through the Texas Permanent School Fund Guarantee Program or by a municipal bond insurance policy. The underlying rating of the bonds from Standard and Poor's is "A+" and from Moody's Investors Service is "Aa2" for general obligation debt.

Changes to long-term debt, for the year ended August 31, 2012, are as follows:

	Balance August 31, 2011	Additions	Retirements	Balance August 31, 2012	Due Within One Year
General obligation bonds	\$ 417,965,000	\$ 132,850,000	\$ (62,515,000)	\$ 488,300,000	\$ 16,130,000
Less deferred amounts:					
For issuance premiums/discounts	7,335,091	14,711,454	(758,959)	21,287,586	
Gain or loss on refunding bonds	(4,838,476)	(1,452,005)	450,276	(5,840,205)	
Accrued compensated absences	1,022,975	51,643	(184,645)	889,973	179,020
Long-term worker's compensation	3,814,100	725,803	(783,367)	3,756,536	783,367
	<u>\$ 425,298,690</u>	<u>\$ 146,886,895</u>	<u>\$ (63,791,695)</u>	<u>\$ 508,393,890</u>	<u>\$ 17,092,387</u>

Additional information on the District's long-term liabilities can be found in Note 6 on pages 40 through 46 of the notes to the financial statements.

**PASADENA INDEPENDENT SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

**Economic Factors and Next Year's Budgets and Tax Rates**

The District's fiscal year 2012-2013 capital budget includes the sale of \$96.4 million bonds out of the total authorization of \$270.1 million. The General Fund includes an additional \$1.5 million for miscellaneous capital projects.

- Appraised value used for the 2012-2013 budget preparation is expected to remain constant \$9.5 million.
- General operating fund spending per student increased in the 2012-2013 budget from \$7,036 to \$7,261 primarily due to additional state funding.
- The Districts' 2012-2013 refined average daily attendance is expected to be 49,750. This is an increase of 400 or 1.0% over the actual amount of 49,350 for 2011-2012.

These indicators were taken into account when adopting the general fund budget for 2012-2013. Amounts available for appropriation in the general fund budget are \$388.5 million, an increase of 4.3% over the adopted 2011-2012 budget of \$372.5 million. State revenue will increase as the student population grows. The District will use these revenues to finance programs we currently offer and primarily fund teacher salaries.

General fund expenditures are budgeted to increase 4.3% or \$16 million primarily due to state funding increases. The District has added no major new programs or initiatives to the 2012-2013 budget. The District adopted a balanced budget for 2012-2013. The Maintenance and Operations rate remained at \$1.07 and the Interest and Sinking rate to pay the debt remained at \$.28 for a total tax rate of \$1.35.

**Requests for Information**

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the District's Business Office, Pasadena Independent School District, 1515 Cherrybrook Lane, Pasadena, Texas 77502.

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## **BASIC FINANCIAL STATEMENTS**

PASADENA INDEPENDENT SCHOOL DISTRICT

Exhibit A-1

STATEMENT OF NET ASSETS

August 31, 2012

<u>Data Control Codes</u>		<u>Governmental Activities</u>
	<b>Assets</b>	
1110	Cash and cash equivalents	\$ 239,579,935
1225	Property taxes receivables, net	15,293,522
1240	Due from other governments	12,750,337
1267	Due from fiduciary funds	499
1290	Other receivables, net	766,834
1300	Inventories	1,764,788
1410	Deferred expenses	6,515,042
1420	Capital bond and other debt issuance costs	2,181,488
	Capital assets not subject to depreciation:	
1510	Land	59,740,856
1580	Construction in progress	5,179,043
	Capital assets net of depreciation:	
1520	Buildings and improvements, net	582,236,933
1530	Furniture and equipment, net	29,765,507
1000	<b>Total Assets</b>	<u>955,774,784</u>
	 <b>DEFERRED OUTFLOWS OF RESOURCES</b>	
1990	Deferred outflows: interest rate swap	25,515,802
	<b>Total Deferred Outflows of Resources</b>	<u>25,515,802</u>
	 <b>Liabilities</b>	
2110	Accounts payable	8,266,128
2140	Interest payable	2,808,216
2150	Payroll deductions and withholdings	3,353,725
2160	Accrued wages payable	1,892,097
2180	Due to other governments	606,041
2200	Accrued expenses	2,526,091
2300	Unearned revenue	364,131
	Noncurrent Liabilities:	
2501	Due within one year	17,092,387
2502	Due in more than one year	491,301,503
2000	<b>Total Liabilities</b>	<u>528,210,319</u>
	 <b>DEFERRED INFLOWS OF RESOURCES</b>	
2503	Deferred inflows: interest rate swap	25,515,802
	<b>Total Deferred Outflows of Resources</b>	<u>25,515,802</u>
	 <b>Net Assets</b>	
3200	Invested in capital assets, net of related debt	249,185,456
	<b>Restricted for:</b>	
3820	Federal and state programs	10,309
3840	Food service	8,346,097
3850	Debt service	61,882,192
3870	Campus activity	2,577,159
3900	Unrestricted	105,563,252
3000	<b>Total Net Assets</b>	<u>\$ 427,564,465</u>

See Notes to the Financial Statements.



PASADENA INDEPENDENT SCHOOL DISTRICT  
 STATEMENT OF ACTIVITIES  
 For the Year Ended August 31, 2012

Exhibit B-1

Data Control Codes	Functions/Programs	Expenses	Program Revenue		Net (Expense) Revenue and Changes in Net Primary Government
			Charges for Services	Operating Grants and Contributions	Governmental Activities
	<b>Governmental activities:</b>				
11	Instruction	\$ 279,481,563	\$ 4,563,171	\$ 51,817,575	\$ (223,100,817)
12	Instructional resources and media services	6,151,309	137,226	338,323	(5,675,760)
13	Curriculum and staff development	7,239,584	85,528	1,421,171	(5,732,885)
21	Instructional leadership	5,187,804	52,297	1,092,757	(4,042,750)
23	School leadership	31,598,938	1,113,192	3,017,523	(27,468,223)
31	Guidance, counseling, and evaluation services	18,933,163	172,700	5,645,901	(13,114,562)
32	Social work services	220,407	1,698	92,807	(125,902)
33	Health services	4,349,259	50,494	3,909,725	(389,040)
34	Student transportation	12,026,790	145,089	491,927	(11,389,774)
35	Food service	28,081,754	4,239,806	25,918,430	2,076,482
36	Extracurricular activities	7,381,304	1,755,287	162,148	(5,463,869)
41	General administration	10,170,769	116,763	433,409	(9,620,597)
51	Plant, maintenance and operations	46,124,950	722,791	1,092,988	(44,309,171)
52	Security and monitoring services	4,457,814	50,696	671,300	(3,735,818)
53	Data processing services	5,687,778	69,103	161,800	(5,456,875)
61	Community services	185,536	67	182,358	(3,111)
72	Interest on long-term debt	19,241,431			(19,241,431)
73	Debt issuance costs and fees	920,470			(920,470)
81	Facilities acquisition and construction	37,456			(37,456)
95	Payments to Juvenile Justice Alternative Education Programs	63,133			(63,133)
99	Other governmental charges	1,045,847			(1,045,847)
<b>TG</b>	<b>Total governmental activities</b>	<u>\$ 488,587,059</u>	<u>\$ 13,275,908</u>	<u>\$ 96,450,142</u>	<u>(378,861,009)</u>
	<b>General revenues:</b>				
	Taxes:				
<b>MT</b>	Property taxes, levied for general purposes				101,836,548
<b>DT</b>	Property taxes, levied for debt service				26,642,669
<b>SF</b>	State-aid formula grants				256,929,981
<b>GC</b>	Grants and contributions not restricted				677,646
<b>IE</b>	Investment earnings				293,962
<b>MI</b>	Miscellaneous				786,800
<b>TR</b>	<b>Total general revenues, special items, and transfers</b>				<u>387,167,606</u>
<b>CN</b>	Change in net assets				8,306,597
<b>NB</b>	<b>Net assets - beginning</b>				419,257,868
<b>NE</b>	<b>Net assets - ending</b>				<u>\$ 427,564,465</u>

See Notes to the Financial Statements.

**PASADENA INDEPENDENT SCHOOL DISTRICT**

**BALANCE SHEET**

**GOVERNMENTAL FUNDS**

August 31, 2012

<u>Data Control Codes</u>	<u>General Fund</u>	<u>Debt Service Funds</u>	<u>Capital Projects Fund</u>
<b>Assets</b>			
1110 Cash and temporary investments	\$ 74,786,625	\$ 62,677,024	\$ 82,014,149
<b>Receivables:</b>			
1220 Property taxes - delinquent	20,760,768	4,006,566	
1230 Allowance for uncollectible taxes (credit)	(8,194,388)	(1,279,424)	
1240 Receivables from other governments	7,980,063		
1260 Due from other funds	10,210,194		
1290 Other receivables	425,816	3,768	1,249
1300 Inventories, at cost	1,009,172		
1410 Prepaid expenses	6,113,435		
1000 <b>Total Assets</b>	<u>\$ 113,091,685</u>	<u>\$ 65,407,934</u>	<u>\$ 82,015,398</u>
 <b>Liabilities and Fund Balance</b>			
<b>Liabilities:</b>			
2110 Accounts payable	\$ 3,857,608	\$ 145,041	\$ 2,984,821
2150 Payroll deduction and withholdings payable	3,353,725		
2160 Accrued wages payable	1,811,077		944
2170 Due to other funds	527,086	572,485	5,200,623
2180 Payable to other governments	54,050		
2200 Accrued expenses	8,576		
2300 Deferred revenues	12,706,763	2,727,142	
2000 <b>Total Liabilities</b>	<u>22,318,885</u>	<u>3,444,668</u>	<u>8,186,388</u>
 <b>Fund Balance:</b>			
<b>Nonspendable</b>			
3410 Investments in inventories	1,009,172		
3430 Prepaid items	6,113,435		
<b>Restricted</b>			
3450 Federal/State funds grant restrictions			
3470 Capital projects			73,829,010
3480 Retirement of fund indebtedness		61,963,266	
<b>Committed</b>			
3510 Committed fund balance - construction	20,239,000		
3545 Other purposes	8,286,000		
<b>Assigned</b>			
3550 Construction	2,824,897		
3590 Other purposes	4,497,586		
3600 <b>Unassigned</b>	47,802,710		
3000 <b>Total Fund Balances</b>	<u>90,772,800</u>	<u>61,963,266</u>	<u>73,829,010</u>
4000 <b>Total Liabilities and Fund Balances</b>	<u>\$ 113,091,685</u>	<u>\$ 65,407,934</u>	<u>\$ 82,015,398</u>

See Notes to the Financial Statements.

*Exhibit C-1*

<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ 10,936,752	\$ 230,414,550
	24,767,334
	(9,473,812)
4,770,274	12,750,337
507,086	10,717,280
41,930	472,763
755,616	1,764,788
325,929	6,439,364
<u>\$ 17,337,587</u>	<u>\$ 277,852,604</u>
\$ 1,131,620	\$ 8,119,090
	3,353,725
80,076	1,892,097
4,416,587	10,716,781
551,991	606,041
	8,576
223,748	15,657,653
<u>6,404,022</u>	<u>40,353,963</u>
755,615	1,764,787
325,929	6,439,364
7,274,862	7,274,862
	73,829,010
	61,963,266
	20,239,000
2,577,159	10,863,159
	2,824,897
	4,497,586
	47,802,710
<u>10,933,565</u>	<u>237,498,641</u>
<u>\$ 17,337,587</u>	<u>\$ 277,852,604</u>

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**PASADENA INDEPENDENT SCHOOL DISTRICT**  
**RECONCILIATION OF BALANCE SHEET FOR GOVERNMENTAL FUNDS TO**  
**STATEMENT OF NET ASSETS**  
*August 31, 2012*

*Exhibit C-2*

<u>Data Control Codes</u>		
	<b>Total fund balance, governmental funds</b>	\$ 237,498,641
	Amounts reported for governmental activities in the statement of net assets are different because:	
	Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.	
1	Capital assets at historical cost, net of accumulated depreciation, where applicable	676,922,339
2	Property taxes receivable have been levied and are due this year, but are not available soon enough to pay for the current period's expenditures, these property taxes and related penalty and interest amounts (net of allowance for uncollectible accounts).	15,293,522
3	Bond issuance costs are not financial resources and, therefore, are not reported as assets in governmental funds. These costs are to be amortized over the life of the bonds.	2,181,488
	Long-term liabilities, including bonds payable, are not due and payable in the current period, and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:	
4	General obligation bonds	(488,300,000)
5	Premiums on issuance	(21,287,586)
6	Deferred loss on refunding	5,840,205
7	Accrued compensated absences	(889,973)
8	Accrued interest payable	(2,808,216)
9	Addition of Internal Service fund net assets	<u>3,114,045</u>
	<b>Total net assets - governmental activities</b>	<u><u>\$ 427,564,465</u></u>

*See Notes to the Financial Statements.*

**PASADENA INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCE - GOVERNMENTAL FUNDS**  
*For the Year Ended August 31, 2012*

<b>Data Control Codes</b>		<b>General Fund</b>	<b>Debt Service Funds</b>	<b>Capital Projects Fund</b>
<b>Revenues</b>				
5700	Local, intermediate, and out-of-state	\$ 107,920,154	\$ 26,700,237	\$ 59,098
5800	State program revenues	254,794,100	14,728,556	
5900	Federal program revenues	4,713,832		
5020	<b>Total revenues</b>	<u>367,428,086</u>	<u>41,428,793</u>	<u>59,098</u>
<b>Expenditures</b>				
<b>Current:</b>				
0011	Instruction	222,590,446		
0012	Instruction resources and media services	5,689,164		
0013	Curriculum and staff development	5,669,462		
0021	Instructional leadership	4,050,167		
0023	School leadership	28,064,996		
0031	Guidance, counseling and evaluation services	13,372,929		
0032	Social work services	127,310		
0033	Health services	3,965,763		
0034	Student transportation	11,390,720		
0035	Food services	5,800		
0036	Extracurricular activities	5,895,789		
0041	General administration	9,582,892		
0051	Plant maintenance and operations	43,854,675		
0052	Security and monitoring services	3,996,446		
0053	Data processing services	5,423,732		
0061	Community services	12,451		
<b>Debt service:</b>				
0071	Principal on long-term debt	185,000	13,305,000	
0072	Interest on long-term debt	10,306	17,099,352	
0073	Bond issuance costs and fees		1,757,522	570,786
<b>Capital outlay:</b>				
0081	Facilities acquisition and construction	4,512,474		22,995,216
<b>Intergovernmental:</b>				
0095	Payments to Juvenile Justice Alternative Education Programs	63,133		
0099	Other intergovernmental charges	1,045,847		
6030	<b>Total Expenditures</b>	<u>369,509,502</u>	<u>32,161,874</u>	<u>23,566,002</u>
1100	Excess (deficiency) of revenues over expenditures	<u>(2,081,416)</u>	<u>9,266,919</u>	<u>(23,506,904)</u>
<b>Other Financing Sources (Uses)</b>				
7901	Refunding bonds issued		43,045,000	
7911	Capital-related debt issued (regular bonds)			89,805,000
7916	Premium or discount on issuance of bonds		7,539,364	7,175,786
8949	Payment to Bond Refunding Escrow Agent		(50,482,938)	
7080	<b>Total other financing sources and uses</b>		<u>101,426</u>	<u>96,980,786</u>
1200	Net change in fund balances	(2,081,416)	9,368,345	73,473,882
0100	<b>Fund Balance - Beginning</b>	<u>92,854,216</u>	<u>52,594,921</u>	<u>355,128</u>
3000	<b>Fund Balance - Ending</b>	<u>\$ 90,772,800</u>	<u>\$ 61,963,266</u>	<u>\$ 73,829,010</u>

See Notes to the Financial Statements.

*Exhibit C-3*

<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ 8,402,526	\$ 143,082,015
8,532,941	278,055,597
<u>71,277,087</u>	<u>75,990,919</u>
<u>88,212,554</u>	<u>497,128,531</u>
45,871,806	268,462,252
155,151	5,844,315
1,252,863	6,922,325
922,230	4,972,397
2,116,904	30,181,900
5,070,584	18,443,513
85,980	213,290
161,794	4,127,557
98,824	11,489,544
28,354,539	28,360,339
1,155,186	7,050,975
75,206	9,658,098
34,140	43,888,815
420,120	4,416,566
	5,423,732
172,793	185,244
	13,490,000
	17,109,658
	2,328,308
9,248	27,516,938
	63,133
	1,045,847
<u>85,957,368</u>	<u>511,194,746</u>
<u>2,255,186</u>	<u>(14,066,215)</u>
	43,045,000
	89,805,000
	14,715,150
	<u>(50,482,938)</u>
	<u>97,082,212</u>
2,255,186	83,015,997
<u>8,678,379</u>	<u>154,482,644</u>
<u>\$ 10,933,565</u>	<u>\$ 237,498,641</u>

**PASADENA INDEPENDENT SCHOOL DISTRICT**

*Exhibit C-4*

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
For the Year Ended August 31, 2012**

<u>Data Control Codes</u>		
	Net change in fund balances - total governmental funds (from C-3)	\$ 83,015,997
	Amounts reported for governmental activities in the statement of activities (B-1) are different because:	
<b>1</b>	Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expenses. This is the amount by which depreciation (\$20,491,650) exceeded capital outlay (\$29,235,052) in the current period.	8,743,402
<b>2</b>	The net effect of the disposition of capital assets is not recorded in the governmental funds. The loss on disposal of capital assets decreases net assets at the government wide level.	(140,932)
<b>3</b>	Property tax revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(240,590)
<b>4</b>	Repayment of bond principal is an expenditure in the governmental fund, but the repayment reduces long-term liabilities in the statement of net assets.	13,490,000
<b>5</b>	Proceeds from 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.	(147,565,150)
<b>6</b>	Funds paid to the bond refunding agent are reported as other uses in the governmental funds. In the government-wide financial statements, proceeds are treated as an increase in long-term liabilities.	50,482,938
<b>7</b>	Bond issuance costs paid during the current year will be amortized over the life of the bonds. This is the amount by which new issuance costs (\$1,407,838) exceeded the amortization	1,323,030
	Some expenses reported in the statement of activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds:	
<b>8</b>	Increase in interest payable not recognized in fund statements	(2,353,411)
<b>9</b>	Decrease in long-term portion of accrued compensated absences.	133,002
<b>10</b>	Amortization of bond premium/discount and deferred loss on refunding bonds.	306,446
<b>11</b>	Internal service funds are used by management to charge the costs of certain activities, such as insurance and telecommunications, to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities (see D-2).	<u>1,111,865</u>
	<b>Change in net assets of governmental activities (see B-1)</b>	<u>\$ 8,306,597</u>

*See Notes to the Financial Statements.*



**PASADENA INDEPENDENT SCHOOL DISTRICT**

*Exhibit D-1*

**STATEMENT OF NET ASSETS**

**PROPRIETARY FUNDS**

*August 31, 2012*

<u>Data Control Codes</u>		<u>Governmental Activities</u>
		<u>Internal Service Fund</u>
	<b>Assets</b>	
	<b>Current Assets:</b>	
1110-75	Cash and cash equivalents	\$ 9,165,385
1290	Other receivables	294,071
1400	Other current assets	75,678
	<b>Total current assets</b>	<u>\$ 9,535,134</u>
	<b>Liabilities</b>	
	<b>Current Liabilities:</b>	
2110	Accounts payable	\$ 147,038
2200	Accrued expenses	3,300,882
	<b>Total Current Liabilities</b>	<u>3,447,920</u>
	<b>Non-current liabilities:</b>	
2590	Claims and judgments	2,973,169
	<b>Total Non-current Liabilities</b>	<u>2,973,169</u>
2000	<b>Total Liabilities</b>	<u>6,421,089</u>
	<b>Net Assets</b>	
3900	Unrestricted net assets	3,114,045
3000	<b>Total Net Assets</b>	<u>\$ 3,114,045</u>

*See Notes to the Financial Statements.*

**PASADENA INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS**  
**PROPRIETARY FUNDS**  
*For the Year Ended August 31, 2012*

*Exhibit D-2*

<b>Data Control Codes</b>	<b>Governmental Activities</b>
	<b>Internal Service Funds</b>
<b>Operating Revenues</b>	
5749 Miscellaneous revenue from local sources	\$ 942,932
5754 Quasi-external interfund transactions	37,896,504
5020 <b>Total Operating Revenues</b>	<u>38,839,436</u>
<b>Operating Expenses</b>	
6100 Payroll costs	1,012,475
6200 Purchased and contracted services	26,400
6400 Claims expense and other operating expenses	36,694,411
6030 <b>Total Operating Expenses</b>	<u>37,733,286</u>
1200 Operating Income (Loss)	1,106,150
<b>Non-Operating Revenues (Expenses)</b>	
7020 Investment earnings	5,715
<b>Total Nonoperating Revenues (Expenses)</b>	<u>5,715</u>
1200 Change in Net Assets	1,111,865
<b>Net Assets</b>	
0100 <b>Net Assets - Beginning</b>	<u>2,002,180</u>
3300 <b>Net Assets - Ending</b>	<u><u>\$ 3,114,045</u></u>

*See Notes to the Financial Statements.*

**PASADENA INDEPENDENT SCHOOL DISTRICT**

*Exhibit D-3*

**STATEMENT OF CASH FLOWS**

**PROPRIETARY FUNDS**

*Year Ended August 31, 2012*

	<b>Governmental Activities</b>
	<b>Internal Service Funds</b>
<b>Cash Flows from Operating Activities:</b>	
Cash received from customers	\$ 942,932
Cash receipts from quasi-external operating activities with other funds	37,578,129
Cash payments for claims	(29,138,903)
Cash payments for contract services	(7,967,810)
Cash payments to employees	(24)
<b>Net Cash Provided by (Used for) Operating Activities</b>	<u>1,414,324</u>
<b>Cash Flows from Non-Capital Financing Activities:</b>	
Changes in claims and judgments	(572,737)
<b>Net Cash Provided by (Used for) Non-Capital Financing Activities</b>	<u>(572,737)</u>
<b>Cash Flows from Investing Activities:</b>	
Interest on investments	5,715
<b>Net Cash Provided by Investing Activities</b>	<u>5,715</u>
Net Increase in Cash and Cash Equivalents	847,302
Cash and Cash Equivalents at Beginning of Year	8,318,083
<b>Cash and Cash Equivalents at End of Year</b>	<u>\$ 9,165,385</u>
<b>Reconciliation to Balance Sheet</b>	
Cash and Cash Equivalents Per Cash Flow	<u>\$ 9,165,385</u>
<b>Cash and Cash Equivalents per Balance Sheet</b>	<u>\$ 9,165,385</u>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</b>	
Operating Income (Loss)	\$ 1,106,150
<b>Change in Assets and Liabilities:</b>	
Decrease (increase) in Receivables	(294,071)
Decrease (increase) in Other Assets	(24,304)
Increase (decrease) in Accounts Payable	(156,818)
Increase (decrease) in Accrued Expenses	783,367
<b>Net Cash Provided by (Used for) Operating Activities</b>	<u>\$ 1,414,324</u>

*See Notes to the Financial Statements.*

**PASADENA INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF FIDUCIARY NET ASSETS**  
**AGENCY FUNDS**  
*August 31, 2012*

*Exhibit E-1*

<u>Data Control Codes</u>		<b>865</b>
		<u>Student Activity Fund</u>
	<b>Assets</b>	
1110	Cash and cash equivalents	\$ 410,597
	<b>Receivables:</b>	
1290	Other receivables	15,015
	<b>Total Assets</b>	<u>\$ 425,612</u>
	<b>Liabilities</b>	
2110	Accounts payable	\$ 27,058
2170	Due to other funds	499
2190	Due to others	398,055
2000	<b>Total Liabilities</b>	<u>\$ 425,612</u>

*See Notes to the Financial Statements.*

**Note 1 - Summary of Significant Accounting Policies**

The Pasadena Independent School District (the “District”) is an independent public educational agency operating under applicable laws and regulations of the State of Texas. The District is autonomously governed by a seven member Board of Trustees elected by the District’s residents.

The District prepares its basic financial statements in conformity with Generally Accepted Accounting Principles (GAAP) promulgated by the Governmental Accounting Standards Board (GASB) and other authoritative sources identified in *Statement of Auditing Standards No. 69* of the American Institute of Certified Public Accountants. Additionally, 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.

The District receives funding from local, state and federal government sources and must comply with the requirements of these funding source entities.

**Reporting Entity**

The District is considered an independent entity for financial reporting purposes and is considered a primary government. As required by generally accepted accounting principles, these general purpose financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations or functions as part of the District’s financial reporting entity. Based on these considerations, the District’s general purpose financial statements do not include any other entities. Additionally, as the District is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

Considerations regarding the potential for inclusion of other entities, organizations or functions in the District’s financial reporting entity are based on criteria prescribed by generally accepted accounting principles. These same criteria are evaluated in considering whether the District is a part of any other governmental or other type of reporting entity. The overriding elements associated with prescribed criteria considered in determining that the District’s financial reporting entity status is that of a primary government are: that it has a separately elected governing body; it is legally separate; and it is fiscally independent of other state and local governments. Additionally, prescribed criteria under generally accepted accounting principles include: considerations pertaining to organizations for which the primary government is financially accountable and considerations pertaining to other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete.

**Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities* normally are supported by taxes and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment, are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include (1) charges to students or users who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

**Note 1 - Summary of Significant Accounting Policies (continued)**

**Government-wide and Fund Financial Statements (continued)**

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

**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 are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of 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.

The fiduciary fund financial statements reflect the District's agency fund, reporting only assets and liabilities, and do not have a measurement focus.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are 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. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Grant revenues and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

The District reports the following major governmental funds:

- The *general fund* is the District's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The *debt service fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.
- The *capital projects fund* is used to account for proceeds from sales of bonds and other revenues to be used for authorized construction and technology projects/enhancements.

Additionally, the District reports the following fund types:

- The *special revenue funds* are used to account for resources restricted to, or designated for specific purposes by a grantor. Federal and state financial assistance generally is accounted for in a special revenue fund. Generally, unused balances are returned to the grantor at the close of the specified project periods. With respect to the food service and campus activity funds, funds are rolled over from year to year for use in the program.

**Note 1 - Summary of Significant Accounting Policies (continued)**

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)**

- The *internal service funds* account for employee health insurance and worker's compensation plans provided to other departments on a cost reimbursement basis.
- The *agency fund* is used to account for assets held by the District as an agent for student organizations. The fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operation.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include (1) charges to students or users for goods, services, or privileges provided and (2) operating grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes and investment income.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's internal service fund are charges to the funds and/or employees for self-funded health services. Operating expenses for the internal service fund include the cost of services and administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

**Deposits and Investments**

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, investment pools (TexPool and Lone Star), and money market funds. These external pools operate like a "2a7" pool and these investments are carried at amortized cost in accordance with GASB 31.

Investments for the District are reported at fair value based on quoted market prices at August 31, 2012. The investment pools operate in accordance with appropriate state laws and regulations. The reported value of the pools is the same as the fair value of the pool shares.

**Note 1 - Summary of Significant Accounting Policies (continued)**

**Receivables and Payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are 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). All other outstanding balances between funds are reported as "due to/from other funds."

Property tax receivables include unpaid property taxes at year-end along with penalties and interest assessed on these unpaid taxes and are, shown net of an allowance for uncollectibles. Revenues from property taxes are recognized when levied to the extent they are available. The District considers property taxes as available when collected. However, not all outstanding property taxes are expected to be collected within one year of the date of the financial statements. Property values are determined by the Harris County Appraisal District as of January 1 of each year. Prior to September 1 of each year, the District must adopt its annual budget and as soon thereafter as practicable, shall adopt a tax rate thus creating the tax levy. Property taxes for the current calendar year are levied on approximately October 1 of each year and are payable by January 31 of the following year. Property tax receivables are recorded as of the date levied. Unpaid taxes become delinquent on February 1 and a tax lien on real property is created as of July 1 of each year.

**Inventories and Prepaid Items**

Inventories consisting of supplies and materials are valued at weighted average cost and they include maintenance, transportation, office and instructional supplies, and food service commodities. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Food service commodity inventory is recorded at fair market value on the date received. Commodities are recognized as revenues in the period received when all the eligibility requirements are met. Commodity inventory items are recorded as expenditures when distributed to user locations. A portion of fund balance is considered nonspendable to reflect minimum inventory quantities considered necessary for the District's continuing operations.

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.

**Capital Assets**

Capital assets, which include land, construction in progress, buildings and improvements, furniture and equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the governmental column in the government-wide financial statements. The District's infrastructure includes parking lots and roads associated with various buildings. The cost of the infrastructure was initially capitalized with the building cost and is being depreciated over the same useful life as the building. Capital assets are defined by the District as assets with an initial, individual cost that equals or exceeds \$5,000 and an estimated useful life in excess of one year. 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.



**Note 1 - Summary of Significant Accounting Policies (continued)**

**Capital Assets (continued)**

Buildings and improvements and furniture and equipment of the District are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	50
Buildings Improvements	50
Vehicles	10
Office equipment	10
Computer equipment	10

**Compensated Absences**

*Vacation*

Prior to August 1, 1998, an employee who resigns, retires, or is dismissed from the District is entitled to cash payment in lieu of vacation for vacation earned during the school year in which such separation from employment occurs. At the time of dismissal, resignation, or retirement, employees may also receive cash payment for unused vacation accrued prior to August 1, 1995, up to a maximum of 20 days. Such cash payment shall be made at the employee's 1994-95 daily rate.

On and after August 1, 1998, all persons hired into a position normally requiring 12 months of service, and any employee promoted, transferred, or reassigned into such a position from a position requiring less than 12 months of service, shall not receive paid vacation. Such persons shall be employed on a 240-day calendar, then days of which may be used as non-duty days. Non-duty days cannot be carried over to any succeeding year, nor can they be cashed out at any time.

*Sick Leave*

An employee retiring under provisions of the Teacher Retirement System (TRS) and who has been continuously employed by the District in a position eligible for sick leave prior to August 1, 1980, shall be eligible for sick leave prior to August 1, 1980, is eligible for separation pay upon retirement. If an employee has accumulated the maximum number of hours, separation payment shall be one-fourth of the employee's annual salary or wage at the time of retirement.

If the employee has accumulated less than the maximum number of hours, separation payment will be computed by calculating the ratio of accumulated hours divided by the maximum number of hours multiplied by one-fourth of the employee's annual salary or wage.

**Long-Term Obligations**

The District's long-term obligations consist of bond indebtedness, health insurance, workers' compensation, and compensated absences. 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 column on the statement of net assets. Bond premiums and discounts are deferred and amortized over the life of the bonds using the bonds outstanding method, which approximates 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.

**Note 1 - Summary of Significant Accounting Policies (continued)**

**Long-Term Obligations (continued)**

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.

The current requirements for general obligation bonds principal and interest expenditures are accounted for in the debt service fund. The current requirements for workers' compensation and compensated absences are accounted for in the general fund.

**Fund Equity**

Beginning with fiscal year 2011, the District implemented GASB Statement No. 54 "Fund Balance Reporting and Governmental Fund Type Definitions". The statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

- Non-spendable fund balance – amounts that are not in spendable form or are required to be maintained intact. As such, the inventory and prepaid items have been properly classified in the Governmental Funds Balance Sheet (Exhibit C-1).
- Restricted fund balance – amounts that can be spent only for specific purposes because of local, state or federal laws, or externally imposed conditions by grantors or creditors. The fund balances for the Child Nutrition Fund and other grant funds are classified as restricted.
- Committed fund balance – amounts constrained to specific purposes by the District itself, using its highest level of decision making authority (i.e. the Board of Trustees). To be reported as committed, amounts cannot be used for any other purposes unless the District takes the same highest level of action to remove or change the constraint. The general fund has committed the following:
  - \$20,239,000 for construction:
    - \$5,000,000 for land acquisition
    - \$15,239,900 for construction and renovation.
  - \$8,286,000 for other purposes:
    - \$4,086,000 for facilities start up supplies
    - \$2,200,000 for technology
    - \$2,000,000 for health insurance expenditures.
- Fund balance in the campus activity fund at August 31, 2012 is committed for campus use.
- Assigned fund balance – amounts the District intends to use for a specific purpose. Intent can be expressed by a governing board or by an official to whom the Board of Trustees delegates the authority. The Board has assigned fund balances in the amount of \$2,824,897 for acquisition of land for construction and \$4,497,586 for encumbrances.
- Unassigned fund balance – amounts that are available for any purpose. At August 31, 2012, the District reports an unassigned fund balance of \$47,802,710.

**Note 1 - Summary of Significant Accounting Policies (continued)**

**Fund Equity (continued)**

The District establishes (and modifies or rescinds) fund balance commitments by passage of resolution. A fund balance commitment is further indicated in the budget document as a commitment. Per Policy CE local, assigned fund balance amounts are established by the Board or an official that has been delegated the authority to assign amounts.

When expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

**Data Control Codes**

The Data Control Codes refer to the account code structure prescribed by the Texas Education Agency (TEA) in the Financial Accountability System Resource Guide. TEA requires school districts to display these codes in the financial statements filed with the Agency in order to insure accuracy in building a statewide database for policy development and funding plans.

**Use of Estimates**

The presentation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**Note 2 - Deposits and Investments**

**Cash Deposits:**

The District's funds are required to be deposited and invested under the terms of a depository contract pursuant to the Texas School Depository Act. The depository bank pledges securities which comply with state law and these securities are held for safekeeping and trust with the District's and the depository banks' agent bank. The pledged securities are approved by the Texas Education Agency and shall be 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. The District's depository bank will participate in the Temporary Liquidity Guarantee Program until December 31, 2012.

As of August 31, 2012, the District's non-interest bearing accounts were fully-insured by the FDIC. The District's depository institution participates in the Temporary Liquidity Guarantee Program (TLGP), which is designed to avoid or mitigate adverse effects on economic conditions or financial stability. TLGP has two primary components -- the Debt Guarantee Program, by which the FDIC will guarantee the payment of certain newly-issued senior unsecured debt, and the Transaction Account Guarantee Program, by which the FDIC will guarantee certain noninterest-bearing transaction accounts. As such, all non-interest bearing transactions accounts are fully-insured by FDIC. In accordance with TRS Government Code 2257.022(2), collateralization is not required for deposits "reduced to the extent that the United States or an instrumentality of the United States insures the deposit."

**Note 2 - Deposits and Investments (continued)**

**Investments:**

The District's investment policy is in accordance with the Public Funds Investment Act, the Public Funds Collateral Act, and federal and state laws. The District further limits its investments to obligations of the U.S. Treasury or the State of Texas, certain U.S. Agencies, certificates of deposit, collateralized mortgage obligations, no-load money market mutual funds, certain municipal securities, repurchase agreements, or investment pools. For fiscal year 2012, the District invested in two public investment pools (TexPool and Lone Star).

TexPool is duly chartered and overseen by the State Comptroller's Office and administered by Federated Investors, Inc. The State Street Bank is the custodial bank. The portfolio consists of U.S. Treasury Bills, Treasury Notes, collateralized repurchase and reverse repurchase agreements, and no-load money market mutual funds regulated by the Securities and Exchange Commission and rated AAA or equivalent by at least one nationally-recognized rating service. Lone Star Investment Pool is duly chartered by the State of Texas Interlocal Cooperation Act, is administered by First Public, LLC, and managed by Standish Mellon and American Beacon Advisors. The Bank of New York is the custodial bank. Lone Star is governed by an eleven-member Board of Trustees comprised of individuals representing entities participating in the pool. An advisory board composed of participants and other knowledgeable individuals provides additional oversight. Lone Star Investment Pool is restricted to invest in obligations of the United States or its agencies and instrumentalities; other obligations insured by the United States; fully collateralized repurchase agreements having a defined termination date, secured by obligations described previously; and SEC-registered no-load money market mutual funds, the assets of which consist exclusively of the obligations described above.

At year-end, the District's cash and investments balances and the weighted average maturity of these investments were as follows:

	<b>Fair Market Value</b>	<b>Weighted Average Maturity (Days)</b>
Cash and deposits	\$ 48,191	N/A
<b>Investments</b>		
Local Government Investment Pools		
Lone Star	49,786,305	40
TexPool	190,156,036	46
<b>Total Investments</b>	<u>239,942,341</u>	45
<b>Total Cash and Investments</b>	<u>\$ 239,990,532</u>	

Cash and cash equivalent balances are made up of governmental activities and the fiduciary fund.

Governmental activities	\$ 239,579,935
Fiduciary fund	410,597
	<u>\$ 239,990,532</u>

**Note 2 - Deposits and Investments (continued)**

**Interest Rate Risk:**

Interest rate risk is the risk that changes in interest rates may adversely affect the value of the investments. The District monitors interest rate risk utilizing weighted average maturity analysis. In accordance with its investment policy, the District reduces its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio as a whole to no more than one year. However, the maturity can be longer than one year as long as legal limits are not exceeded. For example, this applies to bond proceeds that are matched to a specific cash flow; diversification; and by holding securities to maturity. The pools are considered to be "2A-7 like pools" under GASB Statement No. 31. The fair value of the positions is the same as the value of the shares in such pools. Total interest earned for the year ended August 31, 2012, was \$293,962.

**Credit Risk:**

State law and the District's investment policy limits investments in all categories to top ratings issued by nationally recognized statistical rating organizations. As of August 31, 2012, the District's investment in TexPool was rated AAAM by Standard and Poor's. The District's investments in Lone Star Investment Pool were rated AAAf/S1 by Standard and Poor's.

**Concentration of Credit Risk:**

The District's investment policy requires the investment portfolio to be diversified in terms of investment instruments, maturity scheduling, and financial institutions in order to reduce the risk of loss resulting from over-concentration of assets in a specific class of investments, specific maturity, or specific issuer.

**Note 3 - Receivables**

Receivables as of year-end for the District's individual major and non-major funds in the aggregate, including the applicable allowances for uncollectible accounts, were as follows:

	<u>General Fund</u>	<u>Debt Service Funds</u>	<u>Other Governmental Funds</u>	<u>Internal Service Funds</u>	<u>Total</u>
Property Taxes	\$ 20,760,768	\$ 4,006,566	\$	\$	\$ 24,767,334
Due from other governments	7,980,063		4,770,274		12,750,337
Other	425,816	3,768	43,179	294,071	766,834
Gross Receivables	29,166,647	4,010,334	4,813,453	294,071	38,284,505
Less allowance for doubtful accounts	(8,194,388)	(1,279,424)			(9,473,812)
<b>Net Total Receivables</b>	<u>\$ 20,972,259</u>	<u>\$ 2,730,910</u>	<u>\$ 4,813,453</u>	<u>\$ 294,071</u>	<u>\$ 28,810,693</u>

**Note 3 - Receivables (continued)**

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 or in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenues reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Delinquent property taxes receivable (General Fund)	\$ 12,566,380	\$
Delinquent property taxes receivable (Debt Service Fund)	2,727,142	
Advanced collection of fees		140,383
Grant funds received prior to meeting all eligibility requirements		223,748
	<u>\$ 15,293,522</u>	<u>\$ 364,131</u>

**Note 4 - Capital Assets**

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

	<u>Balance (as restated) August 31, 2011</u>	<u>Additions</u>	<u>(Retirements) and Transfers</u>	<u>Balance August 31, 2012</u>
Capital assets, not being depreciated				
Land	\$ 53,450,073	\$ 6,431,715	\$ (140,932)	\$ 59,740,856
Construction in progress	166,542	5,012,501		5,179,043
<b>Total Capital Assets, not being depreciated</b>	<u>53,616,615</u>	<u>11,444,216</u>	<u>(140,932)</u>	<u>64,919,899</u>
Capital assets, being depreciated				
Buildings and improvements	793,191,717	10,480,102	(70,486)	803,601,333
Furniture and equipment	95,942,681	7,310,734	(252,939)	103,000,476
<b>Total Capital Assets, being depreciated</b>	<u>889,134,398</u>	<u>17,790,836</u>	<u>(323,425)</u>	<u>906,601,809</u>
Less accumulated depreciation for:				
Buildings and improvements	(207,059,139)	(14,375,747)	70,486	(221,364,400)
Furniture and Equipment	(67,372,005)	(6,115,903)	252,939	(73,234,969)
<b>Total Accumulated Depreciation</b>	<u>(274,431,144)</u>	<u>(20,491,650)</u>	<u>323,425</u>	<u>(294,599,369)</u>
<b>Governmental Capital Assets</b>	<u>\$668,319,869</u>	<u>\$ 8,743,402</u>	<u>\$ (140,932)</u>	<u>\$676,922,339</u>

**Note 4 - Capital Assets (continued)**

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

	<u>Function</u>	<u>Depreciation Expense</u>
11	Instruction	\$ 12,686,605
12	Instructional resources and media services	306,994
13	Curriculum and staff development	317,259
21	Instructional leadership	219,261
23	School leadership	1,569,095
31	Guidance, counseling and evaluation services	739,648
32	Social work services	7,117
33	Health services	221,702
34	Student transportation	637,040
35	Food Services	325
36	Extracurricular activities	330,329
41	General administration	512,671
51	Facilities maintenance and operations	2,418,796
52	Security and monitoring services	221,108
53	Data processing services	303,408
61	Community services	292
		<u>\$ 20,491,650</u>

**Construction Commitments**

The District has active construction projects as of August 31, 2012. The projects include the construction and equipment of school facilities. At year-end, the District's commitments with contractors are as follows:

<u>Project</u>	<u>Approved Construction Budget</u>	<u>Construction in Progress</u>	<u>Remaining Commitment</u>
South Houston Elementary Additions	\$ 8,965,943	\$ 509,526	\$ 8,456,417
Matthys Elem Vinyl & Painting	115,330	60,000	55,330
Morales Elem Pipe Testing	2,306	2,000	306
Veterans Memorial Stadium Parking Lot	4,451,306	3,944,192	507,114
Sam Rayburn HS Portable	130,377	76,800	53,577
Braden Center Community School Renovations	25,793	23,500	2,293
Dobie HS Portables	401,226	168,874	232,352
Sam Rayburn HS ROTC Renovation	39,460	30,000	9,460
Evening School Expansion	133,088	113,225	19,863
Various	250,926	250,926	
	<u>\$ 14,515,755</u>	<u>\$ 5,179,043</u>	<u>\$ 9,336,712</u>

**Note 5 - Interfund Receivables, Payables, and Transfers**

Interfund balances consist of short-term lending/borrowing arrangements that result primarily from payroll, warehouse ordering and other regularly occurring charges that are paid by the general fund and then charged back to the appropriate other fund. Activity between the debt service fund and the capital projects fund results primarily from the capital projects fund interest earnings that are used for debt service payments. Additionally, some lending/borrowing may occur between two or more non-major governmental funds. Interfund balances as of August 31, 2012, were as follows:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$ 10,210,194	\$ 527,086
Debt Service Funds		572,485
Capital Projects Fund		5,200,623
Non-major Funds	507,086	4,416,587
Fiduciary Funds		499
	<u>\$ 10,717,280</u>	<u>\$ 10,717,280</u>

Interfund transfers are defined as “flows of assets without equivalent flow of assets in return and without a requirement for repayment.” The District had no interfund transfers during the fiscal year.

**Note 6 - Long-Term Liabilities**

**Changes in Long-Term Liabilities**

Long-term liability activity for the year ended August 31, 2012, was as follows:

	<u>Balance August 31, 2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance August 31, 2012</u>	<u>Due Within One Year</u>
General obligation bonds	\$ 417,965,000	\$ 132,850,000	\$ (62,515,000)	\$ 488,300,000	\$ 16,130,000
Less deferred amounts:					
For issuance premiums/discounts	7,335,091	14,711,454	(758,959)	21,287,586	
Gain or loss on refunding bonds	(4,838,476)	(1,452,005)	450,276	(5,840,205)	
Accrued compensated absences	1,022,975	51,643	(184,645)	889,973	179,020
Long-term worker's compensation	3,814,100	725,803	(783,367)	3,756,536	783,367
	<u>\$ 425,298,690</u>	<u>\$ 146,886,895</u>	<u>\$ (63,791,695)</u>	<u>\$ 508,393,890</u>	<u>\$ 17,092,387</u>



**Note 6 - Long-Term Liabilities (continued)**

**General Obligation Bonds**

The District issues general obligation bonds to provide funds for the construction and equipment of school facilities, buses, and to refund general obligation bonds. General obligation bonds are direct obligations and pledge the full faith and credit of the District.

General obligation bonds currently outstanding are as follows:

Issue	Original Issuance Amount	Interest Rate (%)	Maturity Date	Debt Outstanding
Variable Rate Unlimited Tax School Building Bonds, Series 1996A	\$ 18,100,000	6.05%	2/15/2016	\$ 1,100,000
Unlimited Tax School Building & Refunding Bonds, Series 2005	36,059,737	3.00-5.00%	2/15/2021	5,495,000
Unlimited Tax Refunding Bonds, Series 2005 A	14,605,000	3.00-5.00%	2/15/2017	7,360,000
Variable Rate Unlimited Tax School Building Bonds, Series 2005B	80,000,000	4.36%	2/1/2035	79,900,000
Limited Tax Refunding Bonds, Series 2005	6,370,000	3.50-6.25%	2/15/2013	195,000
Unlimited Tax Refunding Bonds, Series 2006	118,020,000	4.00-5.00%	2/15/2036	110,580,000
Unlimited Tax Refunding Bonds, Series 2007	66,980,000	4.00-5.00%	2/15/2026	57,930,000
Unlimited Tax Refunding Bonds, Series 2008	42,930,000	3.00-5.00%	2/15/2022	41,485,000
Unlimited Tax Refunding Bonds, Series 2010	56,385,000	2.5-5.0%	2/15/2029	51,405,000
Unlimited Tax School Building Bonds, Series 2012A	60,755,000	2.00-5.00%	2/15/2041	60,755,000
Unlimited Tax Refunding Bonds, Series 2012B	12,785,000	2.00-5.00%	2/15/2021	12,785,000
Qualified School Construction Bonds, Series 2012C	29,050,000	4.00%	2/15/2030	29,050,000
Unlimited Tax Refunding Bonds, Series 2012D	30,260,000	2.00-5.00%	2/15/2024	30,260,000
				<u>\$ 488,300,000</u>

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending August 31	Principal	Interest	Totals
2013	\$ 16,130,000	\$ 24,238,097	\$ 40,368,097
2014	13,915,000	21,585,471	35,500,471
2015	12,340,000	20,999,296	33,339,296
2016	15,405,000	20,404,864	35,809,864
2017	17,270,000	19,742,705	37,012,705
2018-2022	110,040,000	85,699,250	195,739,250
2023-2027	121,260,000	59,999,162	181,259,162
2028-2032	95,430,000	33,528,309	128,958,309
2033-2037	70,895,000	10,427,968	81,322,968
2038-2041	15,615,000	1,462,400	17,077,400
	<u>\$ 488,300,000</u>	<u>\$ 298,087,522</u>	<u>\$ 786,387,522</u>

As of August 31, 2012, \$174 million of debt authorized by the voters remained unissued.

**Note 6 - Long-Term Liabilities (continued)**

**Current Year Issuance of General Obligation and Refunding Bonds**

On February 1, 2012, the District issued Unlimited Tax School Building Bonds and Refunding Bonds, Series 2012A and 2012B which included \$60,755,000 in new bonds and \$12,785,000 in refunding bonds, with interest rates ranging from 2.0 to 5.0 percent. The new bonds will be used to acquire, construct, renovate and equip school facilities, purchase school buses and pay costs of issuance associated with the bonds. The refunding bonds were considered advanced refunding. The amount of the refunded bonds totaled \$13,425,000. The refunding resulted in an economic gain of \$1,002,093. As a result the refunded bonds have been removed from the governmental activities column of the statement of net assets. Premiums on the bonds were \$7,175,785 for the new bonds and \$1,897,085 for the refunding. The deferred loss of \$1,452,005 will be amortized over the life of the new or refunded bonds, whichever is less.

On February 15, 2012, the District issued Unlimited Tax Qualified School Construction Bonds, Taxable Series 2012C in the amount of \$29,050,000 with an interest rate of 4.0 percent. The new bonds will be used to acquire, construct, renovate and equip school facilities and pay costs of issuance associated with the bonds.

On August 1, 2012, the District issued Unlimited Tax Refunding Bonds, Series 2012D in the amount of \$30,260,000 with interest rates ranging from 2.0 to 5.0 percent. The amount of refunded bonds totaled \$35,600,000 which resulted in an economic gain of \$8,665,677. Premiums on the bonds were \$5,638,583. No deferred gain or loss was recognized on the refunding.

**Prior Years' Refunding of Long-Term Debt**

In prior years, the District deferred certain outstanding bonds by placing proceeds of new bonds in irrevocable escrow accounts to provide for all future debt service payments on the old bonds. Accordingly, the escrow accounts to provide for all future bonds are not included in the District's financial statements. At August 31, 2012, \$116,610,000 of refunded bonds outstanding are considered defeased.

**Interest Rate Swap Agreements**

**Variable Interest Rate Bonds Synthetic Fixed Rate Swaps**

As a means to reduce its borrowing cost in comparison to the issuance of traditional fixed rate bonds at the time of issuance, on March 23, 2005 the District entered into two identical pay fixed/receive variable rate swap agreements on the District's \$80,000,000 variable rate unlimited Tax School Building Bonds, Series 2005B (the bonds). The swap agreements and the bonds were issued at the same time. The swap agreements are with Morgan Stanley Capital Services (MS) and Bank of America (B of A), each in original notional amount of \$40,000,000 in order to synthetically fix the interest obligations of the variable interest bonds.

**Note 6 - Long-Term Liabilities (continued)**

**Swap Agreement (continued)**

**Objective**

The objective of the swaps is to hedge against the potential of rising interest rates in conjunction with the District's \$80,000,000 variable interest rate unlimited Tax School Building Bonds Series 2005B ("2005B Bonds"). The fair value balance and notional amount of the derivative instrument outstanding at August 31, 2012, and the changes in fair value of the derivative instrument for the year then ended are as follows:

<b>Governmental Activities</b>	<b>Changes in Fair Value</b>		<b>Fair Value at August 31, 2012</b>		<b>Notional</b>
	<b>Classification</b>	<b>Amount</b>	<b>Classification</b>	<b>Amount</b>	
Cash Flow Hedge:					
Pay-fixed interest rate swap	Deferred Outflow	\$ 6,283,358	Liability	(\$25,515,802)	\$ 79,900,000

**Terms**

The Swap notional amount totals \$79,900,000 the principal amount of the associated 2005B Bonds. The District's swap agreements contain scheduled reductions to outstanding notional amounts that follow anticipated payments of principal of the 2005B Bonds in varying amounts during the years 2022 to 2035. Under the terms of the swaps, the District will pay a fixed rate of 3.689% and receive a floating rate equal to 68% of one month London Interbank Offered Rate (LIBOR) Index. All agreements were effective March 23, 2005, the date of issuance of the 2005B Bonds. The termination date is February 1, 2035.

For the fiscal year ending August 31, 2012, the effective rate on the 2005B Bonds associated with the Swap is as follows:

	<b>Terms</b>	<b>Rate Received (Paid)</b>	
Variable rate payment received from counterparties	LIBOR x 68%	0.169	%
Fixed rate (paid) received for swap		(3.689)	
Net rate (paid) received for swap		(3.520)	
Average variable rate paid on 2005B Bonds		(0.352)	
Remarketing & liquidity fees on 2005B Bonds		(0.565)	
Effective rate of 2005B Bonds		(4.437)	%

**Note 6 - Long-Term Liabilities (continued)**

**Swap Agreement (continued)**

In contrast, the fixed rate the District would have paid on General Obligation Bonds at a comparable maturity on the same sale date would have been 4.92%. The savings on the interest expenditures realized by participating in the Swap agreement has resulted in \$3,909,555 as compared to costs the District would have incurred if the debt had been issued as traditional fixed rate bonds at the time of issuance.

**Fair Value**

Because long-term LIBOR Swap interest rates have declined since inception of the Swaps, the Swaps had a negative fair value of \$25,515,802. This value was calculated using the zero-coupon method. This method calculates the future net settlement payments required by the Swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. The fair value is recorded on the Statement of Net Assets of the District in the “deferred inflow/outflow” accounts.

**Credit Risk**

As of August 31, 2012, the District was not exposed to credit risk because the swaps had a negative fair value. However, should interest rates increase and the fair value of the Swap become positive, the District would be exposed to credit risk on the Swap in the amount of its fair value.

<u>Counterparty</u>	<u>Notional Amount</u>	<u>Fair Value</u>	<u>Counterparty credit rating (Moody/S&amp;P)</u>
Morgan Stanley Capital Services	\$ 39,950,000	\$ (12,777,844)	Baa/A-
Bank of America	39,950,000	(12,737,958)	A3/A
	<u>\$ 79,900,000</u>	<u>\$ (25,515,802)</u>	

**Basis Risk**

The District is exposed to basis risk on the Swaps because the variable payment received is based on LIBOR rather than Securities Industry and Financial Market Association (SIFMA). Should the relationship between LIBOR and SIFMA move to convergence the expected cost savings may not be realized.

**Interest Rate Risk**

On the pay fixed/receive variable interest rate swaps, the District’s net payment increases as LIBOR decreases. When LIBOR decreases, the District receives a lower payout from the Swaps and its net payments on the Swaps increase. Conversely, when LIBOR increases, the District receives a higher payout from the Swaps and its net payments on the Swaps decrease.

**Note 6 - Long-Term Liabilities (continued)**

**Swap Agreement (continued)**

**Termination Risk**

The District may terminate for any reason. The District has the unilateral right to voluntarily terminate the Swap agreements at any time over their term at the then prevailing market value; therefore, voluntary termination is unlikely by the District if the fair value is negative. A Counterparty may terminate a Swap if the District fails to perform under the terms of the contract. The District's options are to terminate with the Swap providers at an agreed market value, assign the Swap to a third party based on bids or quotes, or enter into an off-setting transaction (a reversal). If the Swap should be terminated, the associated variable-rate bonds would no longer carry synthetic fixed interest rates. Also, if at the time of the termination the Swap has a negative fair value, the District would be liable to the counterparty for a payment equal to the Swap's fair value.

The Swap agreements are subject to termination in the event of default or as follows:

- Agreement with Morgan Stanley: If the ratings assigned to either the District's or Morgan Stanley unenhanced long-term debt obligations are withdrawn or reduced to BBB- by S&P or Baa3 by Moody's.
- Agreement with Bank of America: If the ratings assigned to either the District's or Bank of America's long-term debt obligations are withdrawn or reduced to BBB- by S&P or Baa3 by Moody's.

As of August 31, 2012, Morgan Stanley was rated Baa1 and A- by Moody's Investors Service and Standard & Poor's respectively, while Bank of America was rated A3 and A by Moody's and S&P respectively.

**Remarketing Risk**

The District has a risk that the remarketing agent will not be able to sell the variable rate bonds at a competitive rate. However, the District's Standby Bond Purchases Agreement mitigates the risk.

**Rollover Risk**

The District's Series 2005B Bonds and Swaps have matching notional maturity dates of February 1, 2035; therefore the District is not exposed to rollover risk at this time.

Currently, the District's Stand-by Purchase Bond Agreement is with Bank of America, N.A. and expires on July 30, 2014. The price and availability to renew or secure future agreements are subject to market conditions and may expose the District to possible renewal risk.

**Note 6 - Long-Term Liabilities (continued)**

**Swap Agreement (continued)**

**Swap payments and associated debt**

As of August 31, 2011, the following are debt service requirement assuming current interest rates remain the same. As rates vary, variable rate bond interest payments and net Swap payments will vary.

<b>Fiscal Year</b>		<b>Variable Rate</b>		
<b>Ending</b>	<b>Principal</b>	<b>Payments</b>	<b>Hedging, Net</b>	<b>Total</b>
2013	\$	\$ 367,540	\$ 3,361,393	\$ 3,728,933
2014		367,540	3,361,393	3,728,933
2015		367,540	3,361,393	3,728,933
2016		367,540	3,361,393	3,728,933
2017		367,540	3,361,393	3,728,933
2018-2035	79,900,000	4,036,533	37,446,769	121,383,302
	<u>\$ 79,900,000</u>	<u>\$ 5,874,233</u>	<u>\$ 54,253,734</u>	<u>\$ 140,027,967</u>

**Constant Maturity Swap**

To further reduce its borrowing cost in comparison to the issuance of traditional fixed rate bonds at the time of issuance, on September 7, 2006 the District entered into a constant maturity Swap transaction pursuant to an agreement with Citibank N.A. in an original notional amount of \$40,000,000. The Swap agreement became effective on September 6, 2006.

Under the Swap agreement, the District was obligated to make monthly payments to Citibank calculated on a notional amount that was equal to the scheduled outstanding principal amount of the bonds at the SIFMA Municipal Swap Index Rates, and Citibank is obligated to make floating rate payments to the District calculated on a notional amount that is equal to the scheduled outstanding principal amount of the bonds at a rate equal to 68.53% of the ten-year LIBOR. The bonds and the Swap agreements had a stated final maturity date of August 15, 2036.

**Operating Leases**

Commitments under operating lease agreements for facilities and equipment provide for minimum future rental payments. As of August 31, 2012, these payments were as follows:

<b>Year Ending</b>	<b>Amounts</b>
<b>August 31</b>	
2013	\$ 314,890
2014	87,399
2015	84,808
Total minimum lease payments	<u>\$ 487,097</u>

Rental Expenditures in Fiscal Year 2012 were \$ 574,181 .

**Note 7 - Revenues from Local, Intermediate, and Out-of-State Sources**

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

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Property Taxes	\$ 102,090,055	\$ 26,629,752	\$	\$	\$ 128,719,807
Investment Income	151,193	70,485	59,098	63,721	344,497
Co-curricular Student Activities	512,685			3,763,902	4,276,587
Food Sales				4,239,732	4,239,732
Other	5,166,221			335,171	5,501,392
	<u>\$ 107,920,154</u>	<u>\$ 26,700,237</u>	<u>\$ 59,098</u>	<u>\$ 8,402,526</u>	<u>\$ 143,082,015</u>

**Note 8 - Pension Information**

**Plan Description**

The Pasadena 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 the 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 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](http://www.trs.state.tx.us), under the TRS Publications heading.

**Funding Policy and Contributions**

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% 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 the particular action, the time required to amortize TRS' 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 law provides for a member contribution rate of 6.4% for fiscal year 2012, 2011 and 2010. The State contributed a rate of 6.0% for fiscal year 2012, 6.644% for fiscal year 2011 and 6.580% and 6.644% for fiscal year 2010 of all employees' eligible gross earnings, except for those staff members being paid from and participating in federally funded programs. State statutes establish these rates. For staff members funded by federal programs, the District is required to contribute 6.0% for fiscal year 2012, 6.644% for fiscal year 2011 and 6.580% and 6.44% for fiscal year 2010.

**Note 8 - Pension Information (continued)**

Contributions made by the State, District and staff members to TRS for the years ended August 31, 2012, 2011, and 2010, are as follows:

For the Year Ended August 31	State TRS Contributions Made on Behalf of the District	District Required Contributions to TRS	Staff Members Contributions to TRS	Total Covered Payroll
2012	\$ 12,475,401	\$ 5,399,766	\$ 19,066,318	\$ 297,919,435
2011	15,632,327	4,826,501	19,707,480	307,929,373
2010	15,288,578	4,216,455	18,907,161	294,645,592

The contributions made by the State on behalf of the District have been recorded in the governmental funds financial statements of the District as both state revenues and expenditures. These contributions are the legal responsibility of the State.

**Note 9 - Retiree Health Plan**

**Fund Description**

The Pasadena Independent School 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). 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 grants the TRS Board of Trustees the authority to establish and amend basic and optional group insurance coverage for participants. TRS issues a publicly available financial report that includes financial statements and required supplementary information for TRS-Care. That report may be obtained by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701, or 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](http://www.trs.state.tx.us), under the TRS Publications heading.

**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 .65% of public school payroll, respectively, with school districts contributing a percentage of payroll set at .55% for fiscal years 2012, 2011, and 2010. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than .25% or greater than .75% of the salary of each active employee of the public school. For staff members funded by federal programs, the federal programs are required to contribute 1.0%.



**Note 9 - Retiree Health Plan (continued)**

**Contributions**

Contributions made by the State, District and staff members, for the years ended August 31, 2012, 2011, and 2010, are as follows:

For the Year Ended August 31	State TRS Care Contributions Made on Behalf of the District	District Required Contributions to TRS Care	Staff Members Contributions to TRS Care	Total Covered Payroll
2012	\$ 2,643,136	\$ 1,974,571	\$ 1,936,407	\$ 297,919,435
2011	2,352,849	726,445	2,001,588	307,929,373
2010	2,323,052	623,404	1,920,280	294,645,592

For the current fiscal year and each of the past two years, the District’s actual contributions were equal to 100 percent of the required contributions. The contributions made by the State on behalf of the District have been recorded in the governmental funds financial statements of the District as both state revenues and expenditures. These contributions are the legal responsibility of the State.

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 established prescription drug coverage for Medicare beneficiaries know as Medicare Part D. Under Medicare Part D, TRS-Care receives retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. For the years ended August 31, 2012, 2011, and 2010, the subsidy payments received by TRS-Care on-behalf of the District were \$761,648, \$697,585, and \$722,001 respectively. These payments are recorded as equal revenues and expenditures in the governmental funds financial statements of the District.

The Early Retirement Reinsurance Program (ERRP) is a provision of the Patient Protection and Affordable Care Act (PPACA) and provides reimbursement to plan sponsors for a portion of the cost of providing health benefits to retirees between the ages of 55-64 regardless of age. An “early retiree” is defined as a plan participant aged 55-64 who is eligible for Medicare and is not covered by an active employee of the plan sponsor.

This temporary program is available to help employers continue to provide coverage to early retirees. ERRP reimbursement is available on a first come, first serve basis for qualified employers that apply and become certified for this program and has received funds from the ERRP program. These funds must be allocated to reporting agencies using the same basis as the Medicare Part D. For the fiscal year ended August 31, 2012, the contribution made on behalf of the District was \$720,274.

**Note 10 - Risk Management**

**Property/Liability**

The District is exposed to various risks of loss related to property/liability losses for which the District carries commercial insurance.

In addition, the District is a member of the Texas Association of School Boards Joint Self-Insurance Fund (Fund). The fund was created to formulate, develop and administer a program of modified self-funding for the property and/or liability coverage for its membership, provide claims administration, and develop a comprehensive loss control program. The District pays contributions to the Fund for its general and educators' liability and fleet comprehensive, collision, and liability coverage. The Districts agreement with the Fund will be self-sustaining through member premiums and will provide, through commercial companies, reinsurance contracts.

**Note 11 - Self-Funded Health Insurance**

During the year ended August 31, 2012, employees of the District were covered by a health insurance plan (the "Plan"). The District contributed \$225 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay contributions for dependents. All contributions were paid to a third party administrator, acting on behalf of the self-funded pool. The plan was authorized by Section 21.922, Texas Education Code was documented by contractual agreement. The District has entered into a three-year contract with its third party administrator. The contract is renewable for one additional year on January 1, 2011. In accordance with state statute, the District was protected against unanticipated catastrophic individual or aggregate loss by stop-loss coverage carried through Acordia Insurance Company, a commercial insurer licensed or eligible to do business in Texas in accordance with the Texas Insurance Code. Stop-loss coverage was in effect for individual claims exceeding \$200,000 and for aggregate loss. Other Districts and/or their employees contributed to the self-insurance pool which was operated under contractual provisions Article 4413(32c), Interlocal Cooperation Act. According to the latest actuarial opinion updated August 31, 2012, in reported claims that were unpaid and estimated incurred, but not reported, claims of \$2,517,515. Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the District expects such amounts, if any, to be immaterial.

An analysis of claims liability for fiscal years 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Accrual, September 1	\$ 2,249,321	\$ 2,326,551
Current year estimates	29,178,013	25,777,038
Payments for claims	(28,909,819)	(25,854,268)
Accrual, August 31	<u>\$ 2,517,515</u>	<u>\$ 2,249,321</u>

**Note 12 - Self-Insured Worker's Compensation**

In 1997, the District established its' self-funding Worker's Compensation program. TASB, through its actuarial review of the Worker's Compensation self-insured program, projected a liability of \$2,973,169 as of August 31, 2012, for the ultimate loss reserve of the fund. The District currently maintains a self-insured retention of \$300,000 per occurrence. The District does not purchase aggregate excess insurance. The accrued liability for Worker's Compensation of self-insurance of \$2,973,169 includes incurred but not reported claims. This liability reported in the fund at August 31, 2012, is based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements and the amount of loss can be reasonably estimated. Because actual claim liabilities depend on such complex factors as inflation, change in legal doctrines, and damage awards, the process used in computing the liability does not result necessarily in an exact amount.

The following year-by-year exposure details the number of annual claims:

<u>Year</u>	<u>Claims</u>
2003	322
2004	337
2005	377
2006	386
2007	325
2008	365
2009	311
2010	365
2011	359
2012	335
10-Year Average	<u>348</u>

Changes in the worker's compensation claims liability amounts in fiscal years 2012, 2011, and 2010 are as follows:

	<u>Beginning of</u>	<u>Claims and</u>	<u>Claim</u>	<u>End of Year</u>
	<u>Year Accrual</u>	<u>Changes in</u>	<u>Payments</u>	<u>Accrual</u>
		<u>Estimates</u>		
2012	\$ 3,814,100	\$ 611,847	\$ 229,084	\$ 2,973,169
2011	4,110,049	502,450	798,399	3,814,100
2010	4,184,437	1,055,936	1,130,324	4,110,049

**Note 13 - Shared Services Arrangements**

The District participates in a shared services arrangement (“SSA”) for a federal program with the Harris County Department of Education. 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, school name, 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.

**Note 14 - Contingent Liabilities**

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the District expects such amounts, if any, to be immaterial.

From time to time, the District is a defendant in legal proceedings relating to its operations as a school district. In the best judgment of the District’s management, the outcome of any present legal proceedings will not have any adverse material effect on the accompanying financial statements.

**Note 15 - Arbitrage**

In accordance with the provisions of Section 148(f) of the Internal Revenue Code of 1986, as amended, bonds must satisfy certain arbitrage rebate requirements. Positive arbitrage is the excess of (1) the amount earned on investments purchased with bond proceeds over (2) the amount that such investments would have earned had such investments been invested at a rate equal to the yield on the bond issue. In order to comply with the arbitrage rebate requirements, positive arbitrage must be paid to the U.S. Treasury at the end of each five year anniversary date of the bond issue. The District has estimated that it does not have any arbitrage liability as of August 31, 2012.

**REQUIRED SUPPLEMENTARY INFORMATION**

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**PASADENA INDEPENDENT SCHOOL DISTRICT**

*Exhibit G-1*

**BUDGETARY COMPARISON SCHEDULE**

**GENERAL FUND**

*For the Year Ended August 31, 2012*

	<b>Budgeted Amounts</b>		<b>Actual Amounts, Budgetary Basis</b>	<b>Variance with Final Budget - Positive (Negative)</b>	
	<b>Original</b>	<b>Final</b>			
<b>Revenues</b>					
5700	Local revenues	\$ 110,921,247	\$ 107,894,540	\$ 107,920,154	\$ 25,614
5800	State program revenues	248,521,673	252,877,088	254,794,100	1,917,012
5900	Federal program revenues	13,025,250	4,298,811	4,713,832	415,021
5020	<b>Total revenues</b>	<u>372,468,170</u>	<u>365,070,439</u>	<u>367,428,086</u>	<u>2,357,647</u>
<b>Expenditures</b>					
<b>Current:</b>					
0011	Instruction	228,488,569	222,635,441	222,590,446	44,995
0012	Instruction resources and media services	5,748,668	5,775,444	5,689,164	86,280
0013	Curriculum and instructional staff development	5,341,426	5,776,118	5,669,462	106,656
0021	Instructional leadership	4,030,284	4,101,788	4,050,167	51,621
0023	School leadership	28,378,633	28,082,285	28,064,996	17,289
0031	Guidance, counseling and evaluation services	13,223,234	13,423,616	13,372,929	50,687
0032	Social work services	171,661	171,661	127,310	44,351
0033	Health services	4,187,321	4,209,477	3,965,763	243,714
0034	Student transportation	10,985,364	12,037,383	11,390,720	646,663
0035	Food services		5,800	5,800	
0036	Extracurricular activities	5,283,380	6,244,214	5,895,789	348,425
0041	General administration	9,458,319	9,705,065	9,582,892	122,173
0051	Facilities maintenance and operations	43,964,456	45,710,968	43,854,675	1,856,293
0052	Security and monitoring services	3,957,833	4,279,546	3,996,446	283,100
0053	Data processing services	5,655,849	7,338,054	5,423,732	1,914,322
0061	Community services	49,867	29,867	12,451	17,416
<b>Debt Service:</b>					
0071	Principal on long-term debt	186,500	186,500	185,000	1,500
0072	Interest on long-term debt	20,806	20,806	10,306	10,500
0081	Capital outlay	1,650,000	7,047,564	4,512,474	2,535,090
0095	Payments to Juvenile Justice Alternative Education Programs	594,000	594,000	63,133	530,867
0099	Other intergovernmental charges	1,092,000	1,092,000	1,045,847	46,153
6030	<b>Total Expenditures</b>	<u>372,468,170</u>	<u>378,467,597</u>	<u>369,509,502</u>	<u>8,958,095</u>
1100	Excess (deficiency) of revenues over expenditures		<u>(13,397,158)</u>	<u>(2,081,416)</u>	<u>11,315,742</u>
1200	Net change in fund balances		(13,397,158)	(2,081,416)	11,315,742
0100	<b>Fund balances - beginning</b>	<u>92,854,216</u>	<u>92,854,216</u>	<u>92,854,216</u>	
3000	<b>Fund balances - ending</b>	<u>\$ 92,854,216</u>	<u>\$ 79,457,058</u>	<u>\$ 90,772,800</u>	<u>\$ 11,315,742</u>

The District adopts annual appropriations type budgets for the General Fund, Food Service Special Revenue Fund, and the Debt Service Fund using the same method of accounting as for financial reporting, as required by law. The remaining Special Revenue Funds (primarily federal grant programs) utilize a managerial type budget approved at the fund level by the Board of Trustees upon acceptance of the grants. These grants are subject to Federal, State and locally imposed project length budgets and monitoring through submission of reimbursement reports.

Expenditures may not legally exceed budgeted appropriations at the function or activity level. Expenditure requests which would require an increase in total budgeted appropriations must be approved by the Trustees through formal budget amendment. State law prohibits trustees from making budget appropriations in excess of funds available and estimated revenues. State law also prohibits amendment of the budget after fiscal year end. Supplemental appropriations were made to the General Fund during the fiscal year ended August 31, 2012.

The administrative level at which responsibility for control of budgeted appropriations begins is at the organizational level within each function of operations. The finance department reviews closely the expenditure requests submitted by the various organizational heads (principal and department heads) throughout the year to ensure proper spending compliance. No public funds of the District shall be expended in any manner other than as provided for in the budget adopted by the Board of Trustees.

The official school budget was prepared for adoption for budgeted governmental fund types by August 25, 2011. The budget was formally adopted by the Board of Trustees at a duly advertised public meeting prior to the expenditure of funds. The final amended budget is filed with the Texas Education Agency (TEA) through inclusion in the annual financial and compliance report.

Encumbrance accounting is utilized in all government fund types. Encumbrances for goods or purchased services are documented by purchase orders or contracts. Under Texas law, appropriations lapse at year-end and encumbrances outstanding at that time are appropriately provided for in the subsequent year's budget.



**OTHER SUPPLEMENTARY INFORMATION**

**PASADENA INDEPENDENT SCHOOL DISTRICT**

**COMBINING BALANCE SHEET**

**ALL NON-MAJOR GOVERNMENTAL FUNDS**

August 31, 2012

Data Control Codes	211  ESEA Title I Part A	212  ESEA Title I Part C	224  IDEA B Formula	
<b>Assets</b>				
1110	Cash and temporary investments	\$	\$	\$
<b>Receivables:</b>				
1240	Receivables from other governments	802,366	12,146	1,085,426
1260	Due from other funds	286,973	41	151,627
1290	Other receivables			
1310	Inventories, at cost			
1410	Prepaid expenses			
1000	<b>Total Assets</b>	\$ 1,089,339	\$ 12,187	\$ 1,237,053
 <b>Liabilities and Fund Balance</b>				
<b>Liabilities:</b>				
<b>Current Liabilities:</b>				
2110	Accounts payable	\$ 24,316	\$ 93	\$ 1,634
2160	Accrued wages payable	5,538	1,851	12,556
2170	Due to other funds	1,059,485	10,243	1,222,863
2180	Due to other governments			
2300	Deferred revenues			
2000	<b>Total Liabilities</b>	1,089,339	12,187	1,237,053
 <b>Fund Balance:</b>				
<b>Nonspendable</b>				
3410	Investments in inventories			
3430	Prepaid items			
<b>Restricted</b>				
3450	Federal/State funds grant restrictions			
<b>Committed</b>				
3545	Other purposes			
3000	<b>Total Fund Balances</b>			
4000	<b>Total Liabilities and Fund Balances</b>	\$ 1,089,339	\$ 12,187	\$ 1,237,053

225	240	242	244	255	263	265
IDEAB Preschool Grant	Child Nutrition	Summer Feeding Program	Vocational Ed - Basic	ESEA Title II, Part A	ESEA Title III	21st Century Grant
\$	\$ 7,511,351	\$ 10,309	\$	\$ 2,250	\$	\$
3,523	517,724		33,062	152,190	64,930	436,598
4,001			1,910	29,415	21,926	
	811					
	755,616					
	325,929					
<u>\$ 7,524</u>	<u>\$ 9,111,431</u>	<u>\$ 10,309</u>	<u>\$ 34,972</u>	<u>\$ 183,855</u>	<u>\$ 86,856</u>	<u>\$ 436,598</u>
\$	\$ 756,186	\$	\$ 858	\$	\$ 4,705	\$ 8,122
	9,148		1,349	13,621	1,008	16,967
7,524			32,765	170,234	81,143	411,509
<u>7,524</u>	<u>765,334</u>		<u>34,972</u>	<u>183,855</u>	<u>86,856</u>	<u>436,598</u>
	755,615					
	325,929					
	7,264,553	10,309				
	8,346,097	10,309				
<u>\$ 7,524</u>	<u>\$ 9,111,431</u>	<u>\$ 10,309</u>	<u>\$ 34,972</u>	<u>\$ 183,855</u>	<u>\$ 86,856</u>	<u>\$ 436,598</u>

**PASADENA INDEPENDENT SCHOOL DISTRICT**  
**COMBINING BALANCE SHEET**  
**ALL NON-MAJOR GOVERNMENTAL FUNDS**  
**August 31, 2012**

<b>Data Control Codes</b>	<b>274</b>	<b>279</b>	<b>280</b>
<b>Codes</b>	<b>Gear Up</b>	<b>Title II, Part D-ARRA</b>	<b>TXHERRA (ARRA)</b>
<b>Assets</b>			
1110 Cash and temporary investments	\$ 38	\$	\$
<b>Receivables:</b>			
1240 Receivables from other governments	39,670		4,794
1260 Due from other funds			
1290 Other receivables			
1310 Inventories, at cost			
1410 Prepaid expenses			
1000 <b>Total Assets</b>	<u>\$ 39,708</u>	<u>\$</u>	<u>\$ 4,794</u>
<b>Liabilities and Fund Balance</b>			
<b>Liabilities:</b>			
<b>Current Liabilities:</b>			
2110 Accounts payable	\$ 5,099	\$	\$
2160 Accrued wages payable			
2170 Due to other funds	34,609		4,794
2180 Due to other governments			
2300 Deferred revenues			
2000 <b>Total Liabilities</b>	<u>39,708</u>	<u>\$</u>	<u>4,794</u>
<b>Fund Balance:</b>			
<b>Nonspendable</b>			
3410 Investments in inventories			
3430 Prepaid items			
<b>Restricted</b>			
3450 Federal/State funds grant restrictions			
<b>Committed</b>			
3540 Other purposes			
3000 <b>Total Fund Balances</b>	<u></u>	<u></u>	<u></u>
4000 <b>Total Liabilities and Fund Balance</b>	<u>\$ 39,708</u>	<u>\$</u>	<u>\$ 4,794</u>

283	284	285	286	287	288	289
IDEA B Special Education - Stimulus	IDEA B ARRA Funding	Title I, Part A- ARRA	Texas Title I Priority Schools (ARRA)	Education Jobs Fund	Carol Whit PE, Homelessness Education and ICAC	Miscellaneous Federal Grants
\$	\$	\$ 2,684	\$	\$	\$	\$
			933,933 8,841		314,000 1,332	88,297
<u>\$</u>	<u>\$</u>	<u>\$ 2,684</u>	<u>\$ 942,774</u>	<u>\$</u>	<u>\$ 315,332</u>	<u>\$ 88,297</u>
\$	\$	\$	\$ 63,968 17,381 861,425	\$	\$ 64,535 250,797	\$ 1,192 657 82,431 4,017
		2,684	942,774		315,332	88,297
<u>\$</u>	<u>\$</u>	<u>\$ 2,684</u>	<u>\$ 942,774</u>	<u>\$</u>	<u>\$ 315,332</u>	<u>\$ 88,297</u>

**PASADENA INDEPENDENT SCHOOL DISTRICT**  
**COMBINING BALANCE SHEET**  
**ALL NON-MAJOR GOVERNMENTAL FUNDS**  
**August 31, 2012**

<u>Data Control Codes</u>	<b>397</b>	<b>404</b>
	<u>Advanced Placement Incentive</u>	<u>Student Succ. Init- Acc REA</u>
<b>Assets</b>		
1110 Cash and temporary investments	\$ 37,415	\$
<b>Receivables:</b>		
1240 Receivables from other governments		40,152
1260 Due from other funds		
1290 Other receivables		
1310 Inventories, at cost		
1410 Prepaid expenses		
1000 <b>Total Assets</b>	<u>\$ 37,415</u>	<u>\$ 40,152</u>
 <b>Liabilities and Fund Balance</b>		
<b>Liabilities:</b>		
<b>Current Liabilities:</b>		
2110 Accounts payable	\$ 225	\$ 15,864
2160 Accrued wages payable		
2170 Due to other funds		24,288
2180 Due to other governments		
2300 Deferred revenues	37,190	
2000 <b>Total Liabilities</b>	<u>37,415</u>	<u>40,152</u>
 <b>Fund Balance:</b>		
<b>Nonspendable</b>		
3410 Investments in inventories		
3430 Prepaid items		
<b>Restricted</b>		
3450 Federal/State funds grant restrictions		
<b>Committed</b>		
3540 Other purposes		
3000 <b>Total Fund Balances</b>	<u></u>	<u></u>
4000 <b>Total Liabilities and Fund Balance</b>	<u>\$ 37,415</u>	<u>\$ 40,152</u>

409	410	429	461	480	493
Basic Skills / HS Students	Instructional Materials Allotment	Other Grants	Campus Activity Funds	PISD Ed Foundation Grants	Intergovernmental Contracts
\$ 74,742	\$ 403,322	\$	\$ 2,693,211	\$ 128,934	\$
35,702		205,761			
			41,119		
<u>\$ 110,444</u>	<u>\$ 403,322</u>	<u>\$ 205,761</u>	<u>\$ 2,734,330</u>	<u>\$ 128,934</u>	<u>\$</u>
\$ 8,852	\$ 2,069	\$ 1,984	\$ 156,046	\$ 15,748	\$
6,688		155,789			
94,904	401,253	47,988	1,125		
				113,186	
<u>110,444</u>	<u>403,322</u>	<u>205,761</u>	<u>157,171</u>	<u>128,934</u>	
			2,577,159		
			2,577,159		
<u>\$ 110,444</u>	<u>\$ 403,322</u>	<u>\$ 205,761</u>	<u>\$ 2,734,330</u>	<u>\$ 128,934</u>	<u>\$</u>

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PASADENA INDEPENDENT SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 ALL NON-MAJOR GOVERNMENTAL FUNDS  
 August 31, 2012

Exhibit H-1  
 Page 4 of 4

Data Control Codes		494	497	498	Total Nonmajor Governmental Funds
		Other Locally Funded SRF	Bus Grant and Measurable Outcomes	CASE Partnership	
<b>Assets</b>					
1110	Cash and temporary investments	\$ 20	\$ 3,062	\$ 69,414	\$ 10,936,752
<b>Receivables:</b>					
1240	Receivables from other governments				4,770,274
1260	Due from other funds			1,020	507,086
1290	Other receivables				41,930
1310	Inventories, at cost				755,616
1410	Prepaid expenses				325,929
1000	<b>Total Assets</b>	<u>\$ 20</u>	<u>\$ 3,062</u>	<u>\$ 70,434</u>	<u>\$ 17,337,587</u>
<b>Liabilities and Fund Balance</b>					
<b>Liabilities:</b>					
<b>Current Liabilities:</b>					
2110	Accounts payable	\$	\$	\$ 124	\$ 1,131,620
2160	Accrued wages payable				80,076
2170	Due to other funds				4,416,587
2180	Due to other governments	20			551,991
2300	Deferred revenues		3,062	70,310	223,748
2000	<b>Total Liabilities</b>	<u>20</u>	<u>3,062</u>	<u>70,434</u>	<u>6,404,022</u>
<b>Fund Balance:</b>					
<b>Nonspendable</b>					
3410	Investments in inventories				755,615
3430	Prepaid items				325,929
<b>Restricted</b>					
3450	Federal/State funds grant restrictions				7,274,862
<b>Committed</b>					
3540	Other purposes				2,577,159
3000	<b>Total Fund Balances</b>				<u>10,933,565</u>
4000	<b>Total Liabilities and Fund Balance</b>	<u>\$ 20</u>	<u>\$ 3,062</u>	<u>\$ 70,434</u>	<u>\$ 17,337,587</u>

**PASADENA INDEPENDENT SCHOOL DISTRICT**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCE - ALL NONMAJOR GOVERNMENTAL FUNDS**  
*For the Year Ended August 31, 2012*

<b>Data Control Codes</b>	<b>211</b>	<b>212</b>	<b>224</b>
<b>Revenues</b>	<b>ESEA Title I Part A</b>	<b>ESEA Title I Part C</b>	<b>IDEA B Formula</b>
5700 Local, intermediate, and out-of-state	\$	\$	\$
5800 State program revenues			
5900 Federal program revenues	14,620,986	215,157	8,681,189
5020 <b>Total revenues</b>	<u>14,620,986</u>	<u>215,157</u>	<u>8,681,189</u>
<b>Expenditures</b>			
<b>Current:</b>			
0011 Instruction	12,198,429	196,803	4,889,788
0012 Instruction resources and media services	33,572		
0013 Curriculum and instructional staff development	328,217	9,683	474,482
0021 Instructional leadership	143,267	514	169,548
0023 School leadership	176,396		
0031 Guidance, counseling and evaluation services	1,456,197	7,450	3,128,707
0032 Social work services			
0033 Health services	112,859		18,664
0034 Student transportation			
0035 Food service			
0036 Extracurricular activities			
0041 General administration			
0051 Facilities maintenance and operations	822	633	
0052 Security and monitoring services			
0061 Community services	171,227	74	
0081 Capital outlay			
6030 <b>Total Expenditures</b>	<u>14,620,986</u>	<u>215,157</u>	<u>8,681,189</u>
1200 Net change in fund balances			
0100 <b>Fund balance - Beginning</b>	<u>                    </u>	<u>                    </u>	<u>                    </u>
3000 <b>Fund balance - Ending</b>	<u>\$                    </u>	<u>\$                    </u>	<u>\$                    </u>

225	240	242	244	255	263	265
IDEAB Preschool Grant	Child Nutrition	Summer Feeding Program	Vocational Ed -Basic	ESEA Title II, Part A	ESEA Title III	21st Century Grant
\$	\$ 4,247,203 858,898	\$	\$	\$	\$	\$
110,982	25,052,221		625,995	1,815,120	1,431,967	2,498,409
110,982	30,158,322		625,995	1,815,120	1,431,967	2,498,409
110,982			374,203	1,811,129	1,312,890	1,492,328
				3,909	47,779	182
			5,000	82	51,938	238,155
			246,792		17,438	765,260
	28,354,539					
					1,922	1,714
						770
110,982	28,354,539		625,995	1,815,120	1,431,967	2,498,409
	1,803,783					
	6,542,314	10,309				
\$	\$ 8,346,097	\$ 10,309	\$	\$	\$	\$

**PASADENA INDEPENDENT SCHOOL DISTRICT**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCE - ALL NONMAJOR GOVERNMENTAL FUNDS**  
*For the Year Ended August 31, 2012*

		274	279	280
<b>Data</b>				
<b>Control</b>				
<b>Codes</b>		<b>Gear Up</b>	<b>Title II, Part D- ARRA</b>	<b>TXHERRA (ARRA)</b>
	<b>Revenues</b>			
5700	Local, intermediate, and out-of-state	\$	\$	\$
5800	State program revenues			
5900	Federal program revenues	987,260	30,341	19,177
5020	<b>Total revenues</b>	<u>987,260</u>	<u>30,341</u>	<u>19,177</u>
	<b>Expenditures</b>			
	<b>Current:</b>			
0011	Instruction	783,773	17,787	
0012	Instruction resources and media services			
0013	Curriculum and instructional staff development		9,010	
0021	Instructional leadership	199,239	3,333	19,177
0023	School leadership			
0031	Guidance, counseling and evaluation services			
0032	Social work services			
0033	Health services			
0034	Student transportation			
0035	Food service			
0036	Extracurricular activities			
0041	General administration		211	
0051	Facilities maintenance and operations	4,248		
0052	Security and monitoring services			
0061	Community services			
0081	Capital outlay			
6030	<b>Total Expenditures</b>	<u>987,260</u>	<u>30,341</u>	<u>19,177</u>
1200	Net change in fund balances			
0100	<b>Fund balance - Beginning</b>			
3000	<b>Fund balance - Ending</b>	<u>\$</u>	<u>\$</u>	<u>\$</u>

283	284	285	286	287	288	289
IDEAB Special Education - Stimulus	IDEA B ARRA Funding	Title I, Part A- ARRA	Texas Title I Priority Schools (ARRA)	Education Jobs Fund	Carol Whit PE, Homelessness Education and ICAC	Miscellaneous Federal Grants
\$	\$	\$	\$	\$	\$	\$
113,845	10,380	980,491	3,783,802	8,937,450	968,877	277,138
113,845	10,380	980,491	3,783,802	8,937,450	968,877	277,138
65,055	10,380	935,701	3,100,590	8,937,450	498,892	57,397
		37,156				185,350
3,358		6,912	22,728		55,303	294
			484,380			
45,432			67,396			11,192
			85,980			
			22,728			
					16,965	502
					397,717	22,403
		722				
113,845	10,380	980,491	3,783,802	8,937,450	968,877	277,138
\$	\$	\$	\$	\$	\$	\$

**PASADENA INDEPENDENT SCHOOL DISTRICT**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCE - ALL NONMAJOR GOVERNMENTAL FUNDS**  
*For the Year Ended August 31, 2012*

<u>Data Control Codes</u>		<b>397</b>	<b>404</b>
		<b>Advanced Placement Incentive</b>	<b>Student Succ. Init-Acc REA</b>
<b>Revenues</b>			
5700	Local, intermediate, and out-of-state	\$	\$
5800	State program revenues	29,943	185,937
5900	Federal program revenues		
5020	<b>Total revenues</b>	<u>29,943</u>	<u>185,937</u>
<b>Expenditures</b>			
<b>Current:</b>			
0011	Instruction	29,943	181,703
0012	Instruction resources and media services		
0013	Curriculum and instructional staff development		
0021	Instructional leadership		
0023	School leadership		
0031	Guidance, counseling and evaluation services		
0032	Social work services		
0033	Health services		
0034	Student transportation		
0035	Food service		
0036	Extracurricular activities		
0041	General administration		4,234
0051	Facilities maintenance and operations		
0052	Security and monitoring services		
0061	Community services		
0081	Capital outlay		
6030	<b>Total Expenditures</b>	<u>29,943</u>	<u>185,937</u>
1200	Net change in fund balances		
0100	<b>Fund balance - Beginning</b>	<u>                    </u>	<u>                    </u>
3000	<b>Fund balance - Ending</b>	<u>\$                    </u>	<u>\$                    </u>

409	410	429	461	480	493
Basic Skills / HS Students	Instructional Materials Allotment	Other Grants	Campus Activity Funds	PISD Ed Foundation Grants	Intergovernmental Contracts
\$ 138,905	\$ 3,894,259	\$ 3,409,496	\$ 3,763,902	\$ 169,507	\$ 56,250
138,905	3,894,259	3,409,496	3,763,902	169,507	56,250
37,695	3,894,259	2,952,690	1,557,539	169,507	56,250
92,211		69,487	51,910		
		49,506	15,560		
		2,445	937		
		176,757	514,111		
		89,508	472		
		30,069	202		
8,999		39,034	1,155,186		
			7,334		
138,905	3,894,259	3,409,496	9,248	169,507	56,250
			3,312,499		
			451,403		
			2,125,756		
\$	\$	\$	\$ 2,577,159	\$	\$

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**PASADENA INDEPENDENT SCHOOL DISTRICT**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCE - ALL NONMAJOR GOVERNMENTAL FUNDS**  
*For the Year Ended August 31, 2012*

*Exhibit H-2*  
*Page 4 of 4*

<b>Data Control Codes</b>		<b>494</b>	<b>497</b>	<b>498</b>	
		<b>Other Locally Funded SRF</b>	<b>Bus Grant and Measurable Outcomes</b>	<b>CASE Partnership</b>	<b>Total - Other Governmental Funds</b>
<b>Revenues</b>					
5700	Local, intermediate, and out-of-state	\$	\$ 98,824	\$ 66,840	\$ 8,402,526
5800	State program revenues	15,503			8,532,941
5900	Federal program revenues			116,300	71,277,087
5020	<b>Total revenues</b>	<u>15,503</u>	<u>98,824</u>	<u>183,140</u>	<u>88,212,554</u>
<b>Expenditures</b>					
<b>Current:</b>					
0011	Instruction	15,503		183,140	45,871,806
0012	Instruction resources and media services				155,151
0013	Curriculum and instructional staff development				1,252,863
0021	Instructional leadership				922,230
0023	School leadership				2,116,904
0031	Guidance, counseling and evaluation services				5,070,584
0032	Social work services				85,980
0033	Health services				161,794
0034	Student transportation		98,824		98,824
0035	Food service				28,354,539
0036	Extracurricular activities				1,155,186
0041	General administration				75,206
0051	Facilities maintenance and operations				34,140
0052	Security and monitoring services				420,120
0061	Community services				172,793
0081	Capital outlay				9,248
6030	<b>Total Expenditures</b>	<u>15,503</u>	<u>98,824</u>	<u>183,140</u>	<u>85,957,368</u>
1200	Net change in fund balances				2,255,186
0100	<b>Fund balance - Beginning</b>				<u>8,678,379</u>
3000	<b>Fund balance - Ending</b>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ 10,933,565</u>

PASADENA INDEPENDENT SCHOOL DISTRICT

Exhibit H-3

COMBINING STATEMENTS OF NET ASSETS

INTERNAL SERVICE FUNDS

For the Year Ended August 31, 2012

Data Control Codes	753 Employee Health Insurance	770 Worker's Compensation Fund	Total	
<b>Assets</b>				
<b>Current assets:</b>				
1110	Cash and cash equivalents	\$ 3,194,311	\$ 5,971,074	\$ 9,165,385
1290	Other receivables	294,071		294,071
1410	Other current assets		75,678	75,678
	<b>Total Current Assets</b>	<b>\$ 3,488,382</b>	<b>\$ 6,046,752</b>	<b>\$ 9,535,134</b>
<b>Liabilities</b>				
<b>Current Liabilities:</b>				
2110	Accounts payable	\$ 147,038	\$	\$ 147,038
2200	Accrued expenses	2,517,515	783,367	3,300,882
	<b>Total current liabilities</b>	<b>2,664,553</b>	<b>783,367</b>	<b>3,447,920</b>
<b>Non-current liabilities:</b>				
2590	Claims and judgments		2,973,169	2,973,169
	<b>Total non-current liabilities</b>	<b></b>	<b>2,973,169</b>	<b>2,973,169</b>
2000	<b>Total Liabilities</b>	<b>2,664,553</b>	<b>3,756,536</b>	<b>6,421,089</b>
<b>Net Assets</b>				
3900	Unrestricted net assets	823,829	2,290,216	3,114,045
3000	<b>Total Net Assets</b>	<b>\$ 823,829</b>	<b>\$ 2,290,216</b>	<b>\$ 3,114,045</b>

PASADENA INDEPENDENT SCHOOL DISTRICT

Exhibit H-4

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

INTERNAL SERVICE FUNDS

For the Year Ended August 31, 2012

Data Control Codes	753 Employee Health Insurance	770 Worker's Compensation Fund	Total	
<b>Operating Revenues</b>				
5745	Miscellaneous revenue from local sources	\$ 941,835	\$ 1,097	\$ 942,932
5754	Quasi-external interfund transactions	36,096,504	1,800,000	37,896,504
5020	<b>Total operating revenues</b>	37,038,339	1,801,097	38,839,436
<b>Operating Expenses</b>				
6100	Payroll costs	24	1,012,451	1,012,475
6200	Purchased and contracted services	26,400		26,400
6400	Claims expense and other operating expenses	36,694,411		36,694,411
6030	<b>Total Operating Expenses</b>	36,720,835	1,012,451	37,733,286
1200	Operating Income (Loss)	317,504	788,646	1,106,150
<b>Non-Operating Revenues (Expenses)</b>				
7020	Earnings - temporary deposits and investments	1,667	4,048	5,715
	<b>Total Nonoperating Revenues</b>	1,667	4,048	5,715
1200	Change in Net Assets	319,171	792,694	1,111,865
<b>Net Assets</b>				
0100	<b>Net Assets - Beginning</b>	504,658	1,497,522	2,002,180
3300	<b>Net Assets - Ending</b>	\$ 823,829	\$ 2,290,216	\$ 3,114,045

**PASADENA INDEPENDENT SCHOOL DISTRICT**  
**COMBINING STATEMENT OF CASH FLOWS**  
**INTERNAL SERVICE FUNDS**  
For the Year Ended August 31, 2012

*Exhibit H-5*

	<b>Employee Health Insurance</b>	<b>Worker's Compensation Fund</b>	<b>Total</b>
<b>Increase (Decrease) in Cash and Cash Equivalents</b>			
<b>Cash Flows from Operating Activities:</b>			
Cash received from customers	\$ 941,835	\$ 1,097	\$ 942,932
Cash receipts from quasi-external operating activities with other funds	35,802,433	1,775,696	37,578,129
Cash payments for claims	(28,909,819)	(229,084)	(29,138,903)
Cash payments for contract services	(7,967,810)		(7,967,810)
Cash payments to employees	(24)		(24)
<b>Net Cash Provided by (Used for) Operating Activities</b>	<b>(133,385)</b>	<b>1,547,709</b>	<b>1,414,324</b>
<b>Cash Flows from Non-Capital Financing Activities:</b>			
Changes in claims and judgments	268,194	(840,931)	(572,737)
<b>Net Cash Provided by (Used for) Non-Capital Financing Activities</b>	<b>268,194</b>	<b>(840,931)</b>	<b>(572,737)</b>
<b>Cash Flows from Investing Activities:</b>			
Interest on investments	1,667	4,048	5,715
<b>Net Cash Provided by Investing Activities</b>	<b>1,667</b>	<b>4,048</b>	<b>5,715</b>
Net Increase in Cash and Cash Equivalents	136,476	710,826	847,302
Cash and Cash Equivalents at Beginning of Year	3,057,835	5,260,248	8,318,083
<b>Cash and Cash Equivalents at End of Year</b>	<b>\$ 3,194,311</b>	<b>\$ 5,971,074</b>	<b>\$ 9,165,385</b>
<b>Reconciliation to Balance Sheet:</b>			
Cash and Cash Equivalents Per Cash Flow	\$ 3,194,311	\$ 5,971,074	\$ 9,165,385
<b>Cash and Cash Equivalents per Balance Sheet</b>	<b>\$ 3,194,311</b>	<b>\$ 5,971,074</b>	<b>\$ 9,165,385</b>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</b>			
Operating Income (Loss)	\$ 317,504	\$ 788,646	\$ 1,106,150
<b>Change in Assets and Liabilities:</b>			
Decrease (increase) in Receivables	(294,071)		(294,071)
Decrease (increase) in Other Assets		(24,304)	(24,304)
Increase (decrease) in Accounts Payable	(156,818)		(156,818)
Increase (decrease) in Accrued Expenses		783,367	783,367
<b>Net Cash Provided by (Used for) Operating Activities</b>	<b>\$ (133,385)</b>	<b>\$ 1,547,709</b>	<b>\$ 1,414,324</b>

## **REQUIRED TEA SCHEDULES**

**PASADENA INDEPENDENT SCHOOL DISTRICT**

**SCHEDULE OF DELINQUENT TAXES RECEIVABLE**

*For the Year Ended August 31, 2012*

<b>Last Ten Fiscal Years</b>	<b>1</b>		<b>2</b>	<b>3</b>	<b>10</b>
	<b>Tax Rates</b>		<b>Debt Service</b>	<b>Net Assessed/Appraised Value For School Tax Purposes</b>	<b>Beginning Balance 8/31/11</b>
	<b>Maintenance</b>				
2003 & prior	Various		Various	Various	\$ 3,125,014
2004	1.515000		0.260000	6,940,927,017	869,164
2005	1.515000		0.260000	7,483,889,115	921,174
2006	1.545000		0.260000	7,604,110,083	975,870
2007	1.410000		0.280000	8,483,545,585	980,774
2008	1.070000		0.280000	8,526,003,321	964,038
2009	1.070000		0.280000	10,387,222,963	1,329,360
2010	1.070000		0.280000	10,169,692,944	1,937,659
2011	1.070000		0.280000	9,425,999,982	3,339,009
2012	1.070000		0.280000	9,391,071,779	
<b>1000 Totals</b>					<b>\$ 14,442,062</b>

*Exhibit J-1*

<b>20</b>	<b>31</b>	<b>32</b>	<b>40</b>	<b>50</b>
<b>Current Year's Total Levy</b>	<b>Maintenance Total Collections</b>	<b>Debt Service Total Collections</b>	<b>Entire Year's Adjustments</b>	<b>Ending Balance 8/31/12</b>
\$	\$ 119,803	\$ (24,661)	\$ (226,740)	\$ 2,803,132
	24,861	4,267	(5,994)	834,042
	49,183	8,441	(5,678)	857,872
	75,985	12,787	(14,734)	872,364
	139,018	27,607	1,343	815,492
	202,703	53,044	31,502	739,793
	299,974	78,498	13,400	964,288
	510,827	133,674	(77,304)	1,215,854
	1,036,052	271,116	(306,791)	1,725,050
<u>126,779,469</u>	<u>97,926,069</u>	<u>25,625,514</u>	<u>7,577</u>	<u>3,235,463</u>
<u>\$ 126,779,469</u>	<u>\$ 100,384,475</u>	<u>\$ 26,190,287</u>	<u>\$ (583,419)</u>	<u>14,063,350</u>
				<u>10,703,984</u>
				<u>\$ 24,767,334</u>
				<u>Total taxes receivable per Governmental Fund Balance Sheet</u>

**PASADENA INDEPENDENT SCHOOL DISTRICT**  
**SCHEDULE OF EXPENDITURES FOR COMPUTATION OF**  
**INDIRECT COSTS FOR 2013-2014**  
**GENERAL AND SPECIAL REVENUE FUNDS**  
**For the Year Ended August 31, 2012**

*Exhibit J-2*

Account Number	Account Name	1 (702) School Board	2 (703) Tax Collection	3 (701) Supt's Office	4 (750) Indirect Cost	5 (720) Direct Cost	6 (other) Miscellaneous	7 Total
611X-6146	PAYROLL COSTS		\$314,603	\$ 754,005	\$ 7,328,344			\$ 8,396,952
6149	Fringe Benefits (Unused Leave for Separating Employees in Function 41 and Related 53)				2,315			2,315
6149	Fringe Benefits (Unused Leave for Separating Employees in all Functions except Function 41 and Related 53)				154,093			154,093
6211	Legal Services			248,169		11,933		260,102
6212	Audit Services				87,900			87,900
6213	Tax Appraisal and Collection (Appraisal district costs only from function 99)		1,045,847					1,045,847
621X	Other Prof. Services			28,670	135,389			164,059
6230	Education Service Centers				1,296			1,296
6240	Contr. Maint. and Repair					657,190		657,190
6260	Rentals	945		1,891	232,220			235,056
6290	Miscellaneous Contr.		31,173		79,527			110,700
6320	Textbooks and Reading		70	887	39,429			40,386
63XX	Other Supplies Materials	438	37,299	12,190	634,058			683,985
6410	Travel, Subsistence, Stipends	9,781	2,913	9,195	50,886			72,775
6420	Ins. and Bonding Costs				248,612			248,612
6430	Election Costs	80,790						80,790
6490	Miscellaneous Operating	22,345	3,111	39,156	166,679			231,291
6600	Capital Outlay						11,809	11,809
6000	TOTAL	\$ 114,299	\$ 1,435,016	\$ 1,094,163	\$ 9,160,748	\$ 669,123	\$ 11,809	\$ 12,485,158

Total expenditures/expenses for General and Special Revenue Funds  
 (plus Food Service Enterprise Fund if present) 9 \$455,466,870

Less: Deductions of Unallowable Costs

Fiscal Year	
Total Capital Outlay (6600)	10 \$5,798,478
Total Debt & Lease (6500)	11 195,306
Plant Maintenance (Function 51, 6100-6400)	12 43,667,366
Food (Function 35, 6341 and 6499)	13 14,067,280
Stipends (6413)	14
Column 4 (above) - Total Indirect Cost	9,160,748
Subtotal:	\$72,889,178
Net Allowed Direct Cost	382,577,692

**Cumulative**

Total Cost of Buildings before Depreciation (1520)	15 \$803,601,333
Historical Cost of Buildings over 50 years old	16 12,006,832
Amount of Federal Money in building Cost (Net of #16)	17 1,231,873
Total Cost of Furniture & Equipment before Depreciation (1530&1540)	18 89,662,947
Historical Cost of Furniture & Equipment over 16 years old	19 2,072,510
Amount of Federal Money in Furniture & Equipment (Net of #19)	20 7,591,435

(8) Note A - \$1,627,120 in Function 53 expenditures are included in this report on administrative costs.  
\$1,045,847 in Function 99 expenditures for appraisal district costs are included in this report on administrative costs.



**PASADENA INDEPENDENT SCHOOL DISTRICT**  
**FUND BALANCE AND CASH FLOW CALCULATION SCHEDULE (UNAUDITED)**  
**GENERAL FUND**  
**August 31, 2012**

*Exhibit J-3*

<b>Data Control Code</b>	<b>Explanation</b>	<b>Amount</b>
1.	Total General Fund Balance 08/31/12 (Exhibit C-1 object 3000 for the General Fund only)	\$ 90,772,800
2.	Total Nonspendable Fund Balance 08/31/12 (from Exhibit C-1 - total of object 341X-344X for the General Fund only)	7,122,607
3.	Total Restricted Fund Balance 08/31/12 (from Exhibit C-1 - total of object 345X-349X for the General Fund only)	
4.	Total Committed Fund Balance (from Exhibit C-1 - total of object 351X-354X for the General Fund only)	28,525,000
5.	Total Assigned Fund Balance (from Exhibit C-1 - total of object 355X-359X for the General Fund only)	7,322,483
6.	Estimated amount needed to cover fall cash flow deficits in General Fund (net of borrowed funds and funds representing deferred revenues)	5,000,000
7.	Estimate of two month's average cash disbursements during fiscal year	62,000,000
8.	Estimate of delayed payments from state sources (58xx)	
9.	Estimate of underpayment from state sources equal to variance between Legislative Payment Estimate (LPE) and District Planning Estimate (DPE) or District's calculated earned state aid amount	
10.	Estimate of delayed payments from federal sources (59xx)	3,000,000
11.	Estimate of expenditures to be reimbursed to General Fund from Capital Projects Fund (uses of General Fund cash after bond referendum and prior to issuance of bonds)	
12.	General Fund Optimum Balance and Cash Flow (2+3+4+5+6+7+8+9+10+11)	<u>112,970,090</u>
13.	Excess (Deficit) Undesignated Unreserved General Fund Fund Balance (1-13)	<u>\$ (22,197,290)</u>

The District's Administration will continue to monitor the General Fund Balance in the following budgetary cycles to maintain a fund balance level within District policy and State guidelines.

PASADENA INDEPENDENT SCHOOL DISTRICT

Exhibit J-4

BUDGETARY COMPARISON SCHEDULE

CHILD NUTRITION PROGRAM FUND

For the Year Ended August 31, 2012

Data Control Codes	Budget			Variance with Final Budget Favorable	
	Original	Final	Actual		
<b>Revenues</b>					
5700	Local, Intermediate, and Out-of-State	\$ 5,371,222	\$ 5,371,222	\$ 4,247,203	\$ (1,124,019)
5800	State Program Revenues	733,455	733,455	858,898	125,443
5900	Federal Program Revenues	24,745,654	25,665,654	25,052,221	(613,433)
5020	<b>Total Revenues</b>	<u>30,850,331</u>	<u>31,770,331</u>	<u>30,158,322</u>	<u>(1,612,009)</u>
<b>Expenditures</b>					
<b>Current:</b>					
0035	Food Services	30,850,331	31,770,331	28,354,539	3,415,792
6030	<b>Total Expenditures</b>	<u>30,850,331</u>	<u>31,770,331</u>	<u>28,354,539</u>	<u>3,415,792</u>
1200	Increase (Decrease) in Fund Balance			1,803,783	1,803,783
0100	<b>Fund Balance - Beginning</b>	<u>6,542,314</u>	<u>6,542,314</u>	<u>6,542,314</u>	
3000	<b>Fund Balance - Ending</b>	<u>\$ 6,542,314</u>	<u>\$ 6,542,314</u>	<u>\$ 8,346,097</u>	<u>\$ 1,803,783</u>

PASADENA INDEPENDENT SCHOOL DISTRICT

Exhibit J-5

BUDGETARY COMPARISON SCHEDULE

DEBT SERVICE FUND

For the Year Ended August 31, 2012

Data Control Codes	Budget			Variance with Final Budget Favorable	
	Original	Final	Actual		
<b>Revenues</b>					
5700	Local, Intermediate, and Out-of-State	\$ 28,500,000	\$ 26,700,000	\$ 26,700,237	\$ 237
5800	State Program Revenues	15,400,000	14,700,000	14,728,556	28,556
5020	<b>Total Revenues</b>	<b>43,900,000</b>	<b>41,400,000</b>	<b>41,428,793</b>	<b>28,793</b>
<b>Expenditures</b>					
<b>Debt Service:</b>					
0071	Principal on long-term debt	20,500,000	13,400,000	13,305,000	95,000
0072	Interest on long-term debt	23,000,000	17,200,000	17,099,352	100,648
0073	Bond issuance costs and fees	400,000	2,000,000	1,757,522	242,478
6030	<b>Total Expenditures</b>	<b>43,900,000</b>	<b>32,600,000</b>	<b>32,161,874</b>	<b>438,126</b>
1100	Excess (Deficiency) Revenues Over Expenditures		8,800,000	9,266,919	466,919
<b>Other Financing Sources (Uses)</b>					
Capital-related debt issued (regular					
7911	bonds)		43,100,000	43,045,000	(55,000)
7916	Premium or discount on issuance of bonds		7,400,000	7,539,364	139,364
8940	Payment to bond refunding escrow agent		(50,500,000)	(50,482,938)	17,062
	<b>Total Other Financing Sources</b>			101,426	101,426
1200	Increase (Decrease) in Fund Balance		8,800,000	9,368,345	568,345
0100	<b>Fund Balance - Beginning</b>	<b>52,594,921</b>	<b>52,594,921</b>	<b>52,594,921</b>	
3000	<b>Fund Balance - Ending</b>	<b>\$ 52,594,921</b>	<b>\$ 61,394,921</b>	<b>\$ 61,963,266</b>	<b>\$ 568,345</b>

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**FEDERAL AWARDS SECTION**

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

To the Board of Trustees  
Pasadena Independent School District  
Pasadena, Texas

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Pasadena Independent School District's (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 January 22, 2013. 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***

Management of the District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of 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.

To the Board of Trustees  
Pasadena Independent School District  
Pasadena, Texas  
Page 2

***Compliance and Other Matters***

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

This report is intended solely for the information and use of the board of trustees, management, others within the organization, the Texas Education Agency and other applicable 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 "Whitley Penn LLP". The signature is written in a cursive, flowing style.

Texas City, Texas  
January 22, 2013



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT  
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND  
ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH  
*OMB CIRCULAR A-133***

To the Board of Trustees  
Pasadena Independent School District  
Pasadena, Texas

***Compliance***

We have audited Pasadena Independent School District's (the "District") compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended August 31, 2012. The 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 the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

In our opinion, Pasadena Independent School District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2012.

***Internal Control over Compliance***

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

This report is intended solely for the information and use of the board of trustees, management, others within the organization, the Texas Education Agency and other applicable 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.



Texas City, Texas  
January 22, 2013

**PASADENA INDEPENDENT SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
*For The Year Ended August 31, 2012*

**I. Summary of Auditors' Results**

**Financial Statements**

Type of auditors' report issued:	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency (ies) identified that are not considered to be material weaknesses?	None Reported
Noncompliance material to financial statements noted?	No

**Federal Awards**

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency (ies) identified that are not considered to be material weaknesses?	None reported
Type of auditors' report issued on compliance with major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) 2-7 Circular A-133?	No

Identification of major programs:

<b>Name of Federal Program or Cluster</b>	<b>CFDA Numbers</b>
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**U.S. Department of Education**

Title IV, Part B, 21 <sup>st</sup> Century Community Learning Centers	84.287C
Title III, Part A, English Language Acquisition and Language Enhancement	84.365A
Texas Title I Priority Schools (ARRA)	84.388A
Education Jobs Fund	84.410A

**U.S. Department of Agriculture**

**Child Nutrition Cluster**

School Breakfast Program	10.553
National School Lunch Program	10.555
Summer Food Service Program for Children	10.559

- |   |             |
|---|-------------|
| 1. Dollar Threshold Considered Between Type A and Type B Federal Programs | \$2,159,383 |
| 2. Auditee qualified as low-risk auditee?                                 | Yes         |

**PASADENA INDEPENDENT SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)**  
*For The Year Ended August 31, 2012*

**II. Financial Statement Findings**

There are no current year findings.

**III. Federal Award Findings and Questioned Costs**

There are no current federal award findings.

**IV. Status Of Prior Year Findings**

There were no prior year findings

PASADENA INDEPENDENT SCHOOL DISTRICT  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 For the Year Ended August 31, 2012

Exhibit K-1  
 Page 1 of 2

Data Control Codes	(1) Federal Grantor/ Pass-Through Grantor/ Program Title	(2) Federal CFDA Number	(2A) Pass-Through Entity Identifying Number	(3) Federal Expenditures
<b>U.S Department of Education</b>				
<b>Direct Programs:</b>				
274	GEAR UP Success	84.334A	P334A060082	\$ 1,009,162
289	Teaching American History	84.215X	U215X80069	207,889
288	Carol White Physical Education	84.215F	Q215F100246	565,297
<b>Total Direct Programs</b>				1,782,348
<b>Passed Through State Department of Education:</b>				
211	Title I, Part A - Improving Basic Programs*	84.010A	12610101101917	14,109,784
211	Title I, Part A - Improving Basic Programs*	84.010A	13610101101917	802,366
212	ESEA, Title I, Part C - Education Of Migratory Children	84.011A	12615001101917	207,367
212	ESEA, Title I, Part C - Education Of Migratory Children	84.011A	13615001101917	12,146
224	IDEA - Part B, Formula**	84.027A	126600011019176000	8,277,594
224	IDEA - Part B, Formula**	84.027A	136600011019176600	570,244
225	IDEA - Part B, Preschool**	84.173A	126610011019176610	110,122
225	IDEA - Part B, Preschool**	84.173A	13661011019176610	860
244	Carl Perkins-Basic Grant	84.048A	12420006101917	606,070
244	Carl Perkins-Basic Grant	84.048A	13420006101917	33,063
255	Title II, Part A - TPTR	84.367A	12694501101917	1,662,930
255	Title II, Part A - TPTR	84.367A	13694501101917	152,190
263	Title III, Part A English Language Acquisition and Language Enhancement	84.365A	12671001101917	1,367,037
263	Title III, Part A English Language Acquisition and Language Enhancement	84.365A	13671001101917	64,930
265	Title IV, Part B 21st Century Community Learning Centers	84.287C	116950167110033	1,911,290
265	Title IV, Part B 21st Century Community Learning Centers	84.287C	126950167110032	76,792
279	Title II, Part D Technology (ARRA)	84.386A	10553001101917	14,610
279	Target Teach in Texas (T3) Collaborative Grant (ARRA)	84.386A	10553002710037	16,037
283	IDEA - B Formula (ARRA)**	84.391A	10554001101917	116,089
284	IDEA - B Preschool (ARRA)**	84.392A	10555001101917	10,380
285	Title I, Part A - Improving Basic Programs (ARRA)*	84.389A	10551001101917	984,077
286	Texas Title 1 Priority Schools (ARRA)	84.388A	105520017110050	1,785,477
286	Texas Title 1 Priority Schools (ARRA)	84.388A	105520017110051	1,998,325
287	Education Jobs Fund	84.410A	11550101101917	8,937,450
289	Summer School LEP-RD 16	84.369A	69551102	51,050
<b>Total Passed through State Department of Education</b>				43,878,280
<b>Passed through the Harris Department of Education:</b>				
265	Title IV, Part B 21st Century Community Learning Centers	84.287C	1746001215	242,255
265	Title IV, Part B 21st Century Community Learning Centers	84.287C	1746001215	133,435
265	Title IV, Part B 21st Century Community Learning Centers	84.287C	1746001215	172,018
<b>Total Passed through the Harris Department of Education</b>				547,708
<b>Passed through the Region X:</b>				
280	Homeless Education (ARRA)	84.387A	TXMVP-2	19,177
<b>Total Passed through Region X</b>				19,177
<b>Total U.S. Department of Education</b>				46,227,513

**PASADENA INDEPENDENT SCHOOL DISTRICT**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the Year Ended August 31, 2012

*Exhibit K-1*  
Page 2 of 2

Data Control Codes	(1) Federal Grantor/ Pass-Through Grantor/ Program Title	(2) Federal CFDA Number	(2A) Pass-Through Entity Identifying Number	(3) Federal Expenditures
<b>U.S. Department of Agriculture</b>				
<b>Passed Through the Texas Department of Agriculture:</b>				
Non Cash assistance (commodities):				
240	National School Lunch Program***	10.555	00527	\$ 1,606,504
240	CACFP	10.558	00527	41,597
<b>Total Passed Through the Texas Department of Agriculture</b>				1,648,101
<b>Passed Through State Department of Education:</b>				
Cash Assistance:				
240	School Breakfast Program***	10.553	71401201	5,224,108
240	National School Lunch Program***	10.555	71301201	17,477,668
<b>Total Passed Through State Department of Education:</b>				22,701,776
<b>Passed Through Health and Human Services Commission</b>				
242	Summer Food Service Program for Children***	10.559	00527	702,804
<b>Total Passed Through Health and Human Services Commission</b>				702,804
<b>Total U.S. Department of Agriculture</b>				<b>25,052,681</b>
<b>U.S. Department of Health and Human Services</b>				
<b>Passed Through State Department of Education:</b>				
199	Medicaid	93.778	529-07-0157-00079	135,020
498	CASE	93.575	1746001215	116,300
<b>Total U.S. Department of Health and Human Services</b>				<b>251,320</b>
<b>U.S. Department of Justice</b>				
<b>Direct Programs:</b>				
288	Internet Crimes Against Children	16.543	2009-MC-CX-K051	425,501
<b>Total Direct Programs</b>				425,501
<b>Passed through State Department of Education:</b>				
289	Internet Crimes Against Children (ARRA)	16.800	1018407	22,403
<b>Total Passed through State Department of Education:</b>				22,403
<b>Total U.S. Department of Justice</b>				<b>447,904</b>
<b>Total Expenditures of Federal Awards</b>				<b>\$ 71,979,418</b>

- \* Title I, Part A Cluster
- \*\* Special Education Cluster
- \*\*\* Child Nutrition Cluster

The accompanying notes are an integral part of this schedule.

**Note 1 - Basis of Accounting**

The District accounts for all awards under federal programs in the General and Certain Special Revenue Funds in accordance with the Texas Education Agency's *Financial Accountability System Resource Guide*. These programs are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e. revenues and other financing sources) and decreases (i.e. expenditures and other financing uses) in net current assets.

The modified accrual basis of accounting is used for these funds. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e., both measurable and available, and expenditures in the accounting period in which the liability is incurred, if measurable, except for certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Federal grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant, and, accordingly, when such funds are received, they are recorded as deferred revenues until earned. Generally, unused balances are returned to the grantor at the close of specified project periods

**Note 2 - Basis of Presentation**

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of the District under programs of the federal government for the year ended August 31, 2012. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Government, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net assets or cash flows of the District.

**Note 3 - Reconciliation to Basic Financial Statements**

The following is a reconciliation of expenditures of federal awards program per Exhibit K-1 and expenditures reported on Exhibit C-3:

Total Expenditures of Federal Awards	\$ 71,979,418
SHARS	3,405,527
ROTC	312,297
E-Rate	248,475
Other Federal Revenue	45,202
Reconciled balance	<u>\$ 75,990,919</u>

**Note 4 - General Fund Expenditures**

Federal awards reported in the general fund are summarized as follows:

Related Expenditures on Exhibit C-3	
General Fund	\$ 4,713,832
Special Revenue Funds	<u>71,277,087</u>
	<u>\$ 75,990,919</u>

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**PASADENA INDEPENDENT SCHOOL DISTRICT**  
**REQUIRED RESPONSES TO SELECTED SCHOOL FIRST INDICATORS**  
**August 31, 2012**

*Exhibit L-1*

SF2	Were there any disclosures in the Annual Financial Report and/or other sources of information concerning default on bonded indebtedness obligations?	No
SF4	Did the district receive a clean audit? – Was there an unqualified opinion in the Annual Financial Report?	Yes
SF5	Did the Annual Financial Report disclose any instances of material weaknesses in internal controls?	No
SF9	Was there any disclosure in the Annual Financial Report of material noncompliance?	No
	Total accumulated accretion on CABS included in government-wide financial statements at fiscal year-end	\$0

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