

**PASADENA INDEPENDENT
SCHOOL DISTRICT**

**ANNUAL FINANCIAL AND
COMPLIANCE REPORT**

For The Year Ended August 31, 2010



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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, 2010, at a meeting of the board of trustees of such school district on January 25, 2011.



President of the Board



Secretary of the Board

Financial Section

Independent Auditors' Report

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, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of August 31, 2010, and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 25, 2011, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

To the Board of Trustees
Pasadena Independent School District
Pasadena, Texas
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The management's discussion and analysis and budgetary comparison information on pages 5 to 13 and pages 58 to 59, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The other supplementary information as listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by 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 basic financial statements of the District. Such information, except for that portion marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.



Texas City, Texas
January 25, 2011

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, 2010.

Financial Highlights

1. The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$406,642,417 (*net assets*). Of this amount, \$121,497,958 (*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 \$29,303,991.
 - As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$145,149,536, an increase of \$16,863,982 in comparison with the prior year. The increase in governmental fund balances was primarily due to the increase in the general fund of \$15,050,027.
 - At the end of the current fiscal year, unreserved, undesignated fund balance for the general fund was \$63,428,850, or 18% percent of total general fund expenditures.
 - The District's total bonded debt decreased by \$19,775,000 (4%) 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 17 through 19 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-four 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-one 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 20 through 27 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. 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.

The basic proprietary fund financial statements can be found on pages 28 through 30 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 31 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 33 through 54 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 58 through 59 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 77 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 \$406,642,417 at the close of the most recent fiscal year.

The largest portion of the District's net assets (\$235,263,310) 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

	Governmental Activities	
	2010	2009
Current and other assets	\$ 213,866,627	\$ 187,025,587
Capital and non current assets	680,153,711	688,602,741
Total Assets	894,020,338	875,628,328
Current liabilities	25,334,127	37,457,001
Long term liabilities	462,043,794	460,832,901
Total Liabilities	487,377,921	498,289,902
Net Assets:		
Invested in capital assets net of related debt	235,263,310	248,130,421
Restricted	49,881,149	41,702,168
Unrestricted	121,497,958	87,505,837
Total Net Assets	\$ 406,642,417	\$ 377,338,426

Net assets (\$49,881,149) are restricted for state and federal programs, debt service, campus activities and local grants. The remaining balance of *unrestricted net assets* (\$121,497,958) may be used to meet the District's ongoing obligations to students and creditors. The District's net assets increased by \$29,303,991 during the current fiscal year primarily due to increases in state revenues and SHARS reimbursements.

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

Pasadena Independent School District's Net Assets

	Governmental Activities		Percentage Change
	2010	2009	
Program Revenues			
Charges for services	\$ 15,693,765	\$ 15,147,016	4%
Operating grants	124,926,147	79,281,475	58%
General Revenues			
Property taxes	138,280,155	140,037,727	-1%
State aid - formula grants	241,129,066	237,599,920	1%
Grants and contributions not restricted	1,210,903	385,939	214%
Interest earnings	4,276,791	1,843,266	132%
Other	644,213	11,304,985	
Total Revenues	526,161,040	485,600,328	8%
Expenses			
Instruction	285,659,477	269,777,425	6%
Instructional resources and media services	6,200,687	6,425,258	-3%
Curriculum and staff development	9,198,680	8,771,467	5%
Instructional leadership	5,253,072	4,728,369	11%
School leadership	31,544,642	30,815,053	2%
Guidance, counseling, and evaluation services	19,262,473	15,665,185	23%
Social work services	174,157	201,238	-13%
Health services	4,552,629	4,503,752	1%
Student transportation	11,818,604	10,463,475	13%
Food service	26,521,224	24,052,049	10%
Extracurricular activities	7,089,138	6,580,363	8%
General administration	9,765,102	9,298,117	5%
Plant, maintenance and operations	49,788,328	55,420,189	-10%
Security and monitoring services	4,634,630	4,533,619	2%
Data processing services	6,268,541	6,974,071	-10%
Community services	499,244	738,188	-32%
Interest on long-term debt	16,491,626	18,340,469	-10%
Debt issuance costs and fees	658,073		100%
Facilities acquisition and construction		25,613	-100%
Payments to Juvenile Justice Alternative Education Programs	340,200	53,189	540%
Other governmental charges	1,136,522	876,443	30%
	<u>496,857,049</u>	<u>478,243,532</u>	4%
Excess (deficiency) before special items and transfers	29,303,991	7,356,796	
Special items			
Transfers			
Increase (Decrease) in Net Assets	29,303,991	7,356,796	298%
Beginning net assets	377,338,426	369,981,630	2%
Ending Net Assets	\$ 406,642,417	\$ 377,338,426	8%

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

Governmental Activities

Governmental activities increased the District's net assets by \$29,303,991. Key elements of this increase are as follows:

Revenues are generated primarily from two sources. Grants and contributions (program and general revenues) totaling \$ 126,137,050 represent 24 percent of total revenues and property taxes totaling \$138,280,155 represent 26 percent of total revenues. State-aid formula grants in the current year of 241,129,066 made up 46 percent of total revenues. The remaining \$ 20,614,769 is generated from charges for services, investment earnings, and miscellaneous revenues. Tax revenues increased as a result of an increase in taxable values.

The primary functional expense of the District is instruction (\$285,659,477), which represents 57 percent of total expenses. Plant maintenance and operations (\$ 49,788,328) represents 10 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 \$145,149,536, an increase of \$16,863,982 in comparison with the prior year. Although, the capital projects 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 general fund and other governmental funds.

The general fund is the chief operating fund of the District. At the end of the current fiscal year, unreserved, undesignated fund balance of the general fund was \$63,428,850, while total fund balance reached \$87,266,062. As a measure of the general fund's liquidity, it may be useful to compare both unreserved, undesignated fund balance and total fund balance to total fund expenditures. Unreserved, undesignated fund balance represents 16 percent of total general fund expenditures, while total fund balance represents 19 percent of that same amount.

The fund balance of the District's general fund increased by \$15,050,027 during the current fiscal year, primarily due to increases in SHARS reimbursements, and additional state aid as a result of prior years state property value adjustments.

The debt service fund has a total fund balance of \$44,834,851 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 \$9,705,687 was attributable to favorable swap agreements amendments 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 \$5,283,904, all of which is reserved for authorized construction and technology projects/enhancements. The net decrease in fund balance during the current year of \$9,187,194 was primarily due to construction costs.

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:

	Budget	
	Original	Final Amended
Total revenues	\$ 371,918,637	\$ 360,357,748
Total expenditures	371,918,637	370,269,824
Net change in fund balance	<u>\$</u>	<u>\$ (9,912,076)</u>

Capital Assets and Long-Term Liabilities

Capital Assets

The District's investment in capital assets for its governmental type activities as of August 31, 2010 amounts to \$680,153,711(net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, furniture and equipment and construction in progress. The total decrease in the District's investment in capital assets for the current fiscal year was \$8,449,031.

Major capital asset events during the current fiscal year included the following:

- Construction was completed on several school buildings, renovations and portables with current year expenditures of \$ 1,060,834 .

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

	Balance			Balance
	August 31, 2009	Additions	(Retirements) and Transfers	August 31, 2010
Capital assets, not being depreciated				
Land	\$ 53,453,854		\$ (3,781)	\$ 53,450,073
Construction in progress	2,871,153	1,060,834	(2,871,153)	1,060,834
Total Capital Assets, not being depreciated	56,325,007	1,060,834	(2,874,934)	54,510,907
Capital assets, being depreciated				
Buildings and improvements	769,807,876	12,673,099	2,660,579	785,141,554
Furniture and equipment	84,079,332	5,491,592	(5,567)	89,565,357
Capital lease assets	1,505,212			1,505,212
Total Capital Assets, being depreciated	855,392,420	18,164,691	2,655,012	876,212,123
Less accumulated depreciation for:				
Buildings and improvements	(173,640,021)	(19,435,562)	210,573	(192,865,010)
Furniture and Equipment	(48,217,419)	(8,196,053)	5,567	(56,407,905)
Capital lease assets	(1,257,245)	(39,159)		(1,296,404)
Total Accumulated Depreciation	(223,114,685)	(27,670,774)	216,140	(250,569,319)
Governmental Capital Assets	\$ 688,602,742	\$ (8,445,249)	\$ (3,782)	\$ 680,153,711

Additional information on the District's capital assets can be found in Note 4 on pages 41 through 42 of the notes to the financial statements.

Long-Term Liabilities

At the end of the current fiscal year, the District had \$434,480,000 in bonded debt outstanding, a decrease of \$19,775,000 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, 2010, are as follows:

	Balance August 31, 2009	Additions	Retirements	Balance August 31, 2010	Due Within One Year
General obligation bonds	\$ 454,255,000	\$ 56,385,000	\$ (76,160,000)	434,480,000	\$ 14,515,000
Less deferred amounts:					
For issuance premiums/discounts	3,070,453	4,999,667	(236,039)	7,834,081	
Gain or loss on refunding bonds	(2,680,189)	(2,749,274)	223,196	(5,206,267)	
Accrued compensated absences	2,003,200	256,415	(238,639)	2,020,976	236,313
Long-term worker's compensation	4,184,437	2,204,560	(2,278,948)	4,110,049	
	\$ 460,832,901	\$ 61,096,368	\$ (78,690,430)	\$ 443,238,839	\$ 14,751,313

Additional information on the District's long-term liabilities can be found in Note 6 on pages 43 through 48 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 2010-2011 capital budget forecasts spending \$5 million to complete capital projects, including the completion of Kruse replacement elementary school, the completion of the cafeteria/dining room renovations at South Houston High School , and the completion of the Braden Staff Development Center. The general fund includes an additional \$1.1 million for miscellaneous capital projects.

- Appraised value used for the 2010-2011 budget preparation is expected to slightly decrease to \$9.5 million.
- General operating fund spending per student increased in the 2010-2011 budget from \$7,105 to \$7,297 primarily due to general pay increases.
- The Districts' 2010-2011 refined average daily attendance is expected to be 49,250. This is an increase of 1,059 or 2.2% over the actual amount of 48,191 for 2009-2010.

These indicators were taken into account when adopting the general fund budget for 2010-2011. Amounts available for appropriation in the general fund budget are \$380.8 million, an increase of 2.4 percent over the adopted 2009-2010 budget of \$371.9 million. State revenue will increase as the student population grows. The District will use these and other earmarked increases in revenues to finance programs we currently offer and primarily fund teacher salaries.

Expenditures are budgeted to rise 2.58% or \$9.5 million primarily due to staffing and salary increases. General pay increases allowed the District to open the 2010-2011 school year with a minimum of teacher vacancies. The District has added no major new programs or initiatives to the 2010-2011 budget. The District adopted a budget for 2010-2011 balanced with \$697,800 of Fund Balance. 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

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PASADENA INDEPENDENT SCHOOL DISTRICT

Exhibit A-1

STATEMENT OF NET ASSETS

August 31, 2010

<u>Data Control Codes</u>		<u>Governmental Activities</u>
	Assets	
1110	Cash and cash equivalents	\$ 152,392,557
1225	Property taxes receivables, net	16,103,411
1240	Due from other governments	19,368,083
1290	Other receivables, net	119,807
1300	Inventories	1,796,708
1410	Deferred expenses	3,868,223
1420	Capital bond and other debt issuance costs	918,806
	Capital assets not subject to depreciation:	
1510	Land	53,450,073
1580	Construction in progress	1,060,834
	Capital assets net of depreciation:	
1520	Buildings and improvements, net	592,276,544
1530	Furniture and equipment, net	33,157,452
1550	Capital lease assets	208,808
1990	Deferred inflows: interest rate swap	18,804,955
1990	Other assets	494,077
1000	Total Assets	<u>894,020,338</u>
	Liabilities	
2110	Accounts payable	18,723,281
2140	Interest payable	600,243
2150	Payroll deductions and withholdings	3,145,240
2160	Accrued wages payable	13,282
2180	Due to other governments	127,696
2190	Due to student groups	15,075
2200	Accrued expenses	2,341,204
2300	Unearned revenue	368,106
	Noncurrent Liabilities:	
2501	Due within one year	14,751,313
2502	Due in more than one year	428,487,526
2503	Deferred outflows: interest rate swap	18,804,955
2000	Total Liabilities	<u>487,377,921</u>
	Net Assets	
3200	Invested in capital assets, net of related debt	235,263,310
	Restricted for:	
3820	Federal and state programs	82,534
3840	Food service	5,669,444
3850	Debt service	42,116,507
3870	Campus activity	2,012,664
3900	Unrestricted	121,497,958
3000	Total Net Assets	<u>\$ 406,642,417</u>

See Notes to the Financial Statements.

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PASADENA INDEPENDENT SCHOOL DISTRICT
 STATEMENT OF ACTIVITIES
 For the Year Ended August 31, 2010

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
Governmental activities:					
11	Instruction	\$ 285,659,477	\$ 5,783,129	\$ 72,109,706	\$ (207,766,642)
12	Instructional resources and media services	6,200,687	179,850	729,292	(5,291,545)
13	Curriculum and staff development	9,198,680	103,050	4,210,109	(4,885,521)
21	Instructional leadership	5,253,072	75,195	1,397,051	(3,780,826)
23	School leadership	31,544,642	1,075,926	1,883,752	(28,584,964)
31	Guidance, counseling, and evaluation services	19,262,473	224,597	7,228,786	(11,809,090)
32	Social work services	174,157	3,103	9,056	(161,998)
33	Health services	4,552,629	78,862	8,602,308	4,128,541
34	Student transportation	11,818,604	211,529	1,379,660	(10,227,415)
35	Food service	26,521,224	5,187,622	24,102,385	2,768,783
36	Extracurricular activities	7,089,138	1,343,620	192,854	(5,552,664)
41	General administration	9,765,102	172,153	478,282	(9,114,667)
51	Plant, maintenance and operations	49,788,328	1,043,264	1,381,490	(47,363,574)
52	Security and monitoring services	4,634,630	74,152	765,268	(3,795,210)
53	Data processing services	6,268,541	133,899	156,063	(5,978,579)
61	Community services	499,244	3,814	300,085	(195,345)
72	Interest on long-term debt	16,491,626			(16,491,626)
73	Debt issuance costs and fees	658,073			(658,073)
95	Payments to Juvenile Justice Alternative Education Programs	340,200			(340,200)
99	Other governmental charges	1,136,522			(1,136,522)
TG	Total governmental activities	<u>\$ 496,857,049</u>	<u>\$ 15,693,765</u>	<u>\$ 124,926,147</u>	<u>(356,237,137)</u>
Data Control Codes					
General revenues:					
Taxes:					
MT	Property taxes, levied for general purposes				109,348,136
DT	Property taxes, levied for debt service				28,932,019
SF	State-aid formula grants				241,129,066
GC	Grants and contributions not restricted				1,210,903
IE	Investment earnings				4,276,791
MI	Miscellaneous				644,213
TR	Total general revenues, special items, and transfers				<u>385,541,128</u>
CN	Change in net assets				29,303,991
NB	Net assets - beginning				<u>377,338,426</u>
NE	Net assets - ending				<u>\$ 406,642,417</u>

See Notes to the Financial Statements.

PASADENA INDEPENDENT SCHOOL DISTRICT

BALANCE SHEET

GOVERNMENTAL FUNDS

August 31, 2010

Data Control Codes	General Fund	Debt Service Funds	Capital Projects Fund
Assets			
1110	\$ 81,037,089	\$ 45,458,769	\$ 6,537,269
Receivables:			
1220	19,544,840	3,583,283	
1230	(6,159,774)	(864,938)	
1240	12,889,841		
1290	94,119	21,700	
1300	1,107,353		
1410	3,184,624		
1000	<u>\$ 111,698,092</u>	<u>\$ 48,198,814</u>	<u>\$ 6,537,269</u>
Liabilities and Fund Balance			
Liabilities:			
2110	\$ 7,737,917	\$ 645,618	\$ 1,253,365
2150	3,145,240		
2160			
2180	80,759		
2190	15,075		
2200	67,972		
2300	13,385,067	2,718,345	
2000	<u>24,432,030</u>	<u>3,363,963</u>	<u>1,253,365</u>
Fund Balance:			
Reserved for:			
3410	1,107,353		
3420		44,834,851	
3430	3,184,624		
3440	5,745,235		
3450			
Unreserved, Designated for:			
3510			5,283,904
3590	13,800,000		
Unreserved, Undesignated Reported in:			
3600	63,428,850		
3610			
3000	<u>87,266,062</u>	<u>44,834,851</u>	<u>5,283,904</u>
4000	<u>\$ 111,698,092</u>	<u>\$ 48,198,814</u>	<u>\$ 6,537,269</u>

See Notes to the Financial Statements.

Exhibit C-1

<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 9,379,715	\$ 142,412,842
	23,128,123
	(7,024,712)
6,478,236	19,368,077
3,994	119,813
689,355	1,796,708
683,675	3,868,299
<u>\$ 17,234,975</u>	<u>\$ 183,669,150</u>

\$ 9,041,932	\$ 18,678,832
	3,145,240
13,282	13,282
46,937	127,696
	15,075
	67,972
<u>368,105</u>	<u>16,471,517</u>
<u>9,470,256</u>	<u>38,519,614</u>

689,355	1,796,708
	44,834,851
249,911	3,434,535
247,731	5,992,966
4,584,528	4,584,528
	5,283,904
	13,800,000
	63,428,850
<u>1,993,194</u>	<u>1,993,194</u>
<u>7,764,719</u>	<u>145,149,536</u>
<u>\$ 17,234,975</u>	<u>\$ 183,669,150</u>

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PASADENA INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF BALANCE SHEET FOR GOVERNMENTAL FUNDS TO
STATEMENT OF NET ASSETS
August 31, 2010

Exhibit C-2

<u>Data Control Codes</u>		
	Total fund balance, governmental funds	\$ 145,149,536
	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	680,153,711
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).	16,103,411
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.	918,806
4	Change in market value for certain investments are reported in the Statement of Activities and not reported in the funds.	494,077
	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:	
5	General obligation bonds	(434,480,000)
6	Premiums on issuance	(7,834,081)
7	Deferred loss on refunding	5,206,267
8	Accrued compensated absences	(2,021,046)
9	Accrued interest payable	(600,238)
10	Addition of Internal Service fund net assets	3,551,974
	Total net assets - governmental activities	<u><u>\$ 406,642,417</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, 2010

Data Control Codes	General Fund	Debt Service Funds	Capital Projects Fund
Revenues			
5700 Local, intermediate, and out-of-state	\$ 115,821,197	\$ 31,534,785	\$ 65,372
5800 State program revenues	244,433,229	13,166,542	
5900 Federal program revenues	10,063,120		
5020 Total revenues	<u>370,317,546</u>	<u>44,701,327</u>	<u>65,372</u>
Expenditures			
Current:			
0011 Instruction	206,931,932		
0012 Instruction resources and media services	5,270,929		
0013 Curriculum and staff development	4,758,046		
0021 Instructional leadership	3,709,289		
0023 School leadership	28,097,497		
0031 Guidance, counseling and evaluation services	11,678,636		
0032 Social work services	161,417		
0033 Health services	4,102,175		
0034 Student transportation	11,003,150		
0035 Food services	27,203		
0036 Extracurricular activities	5,828,450		
0041 General administration	8,954,931		
0051 Plant maintenance and operations	46,087,468		
0052 Security and monitoring services	3,843,695		
0053 Data processing services	6,965,059		
0061 Community services	198,407		
Debt service:			
0071 Principal on long-term debt	280,000	17,795,000	
0072 Interest on long-term debt	28,231	16,549,983	
0073 Bond issuance costs and fees		1,201,050	
Capital outlay:			
0081 Facilities acquisition and construction	5,366,203		9,752,566
Intergovernmental:			
0095 Payments to Juvenile Justice Alternative Education Programs	340,200		
0099 Other intergovernmental charges	1,136,522		
6030 Total Expenditures	<u>354,769,440</u>	<u>35,546,033</u>	<u>9,752,566</u>
1100 Excess (deficiency) of revenues over expenditures	<u>15,548,106</u>	<u>9,155,294</u>	<u>(9,687,194)</u>
Other Financing Sources (Uses)			
7901 Refunding bonds issued		56,385,000	
7912 Sale of real or personal property	1,921		
7915 Transfers in			500,000
7916 Premium or discount on issuance of bonds		4,999,667	
8911 Transfers out	(500,000)		
8949 Payment to Bond Refunding Escrow Agent		(60,834,274)	
7080 Total other financing sources and uses	<u>(498,079)</u>	<u>550,393</u>	<u>500,000</u>
1200 Net change in fund balances	15,050,027	9,705,687	(9,187,194)
0100 Fund Balance - Beginning	<u>72,216,035</u>	<u>35,129,164</u>	<u>14,471,098</u>
3000 Fund Balance - Ending	<u>\$ 87,266,062</u>	<u>\$ 44,834,851</u>	<u>\$ 5,283,904</u>

See Notes to the Financial Statements.

Exhibit C-3

Other Governmental Funds	Total Governmental Funds
\$ 8,533,452	\$ 155,954,806
8,839,918	266,439,689
<u>90,540,480</u>	<u>100,603,600</u>
<u>107,913,850</u>	<u>522,998,095</u>
62,040,812	268,972,744
518,592	5,789,521
4,069,473	8,827,519
1,253,024	4,962,313
1,212,156	29,309,653
6,815,791	18,494,427
148	161,565
130,460	4,232,635
868,937	11,872,087
27,708,807	27,736,010
813,785	6,642,235
153,116	9,108,047
178,131	46,265,599
554,933	4,398,628
	6,965,059
285,336	483,743
	18,075,000
	16,578,214
	1,201,050
	15,118,769
	340,200
	<u>1,136,522</u>
<u>106,603,501</u>	<u>506,671,540</u>
<u>1,310,349</u>	<u>16,326,555</u>
	56,385,000
	1,921
	500,000
	4,999,667
	(500,000)
<u>(14,887)</u>	<u>(60,849,161)</u>
<u>(14,887)</u>	<u>537,427</u>
1,295,462	16,863,982
<u>6,469,257</u>	<u>128,285,554</u>
<u>\$ 7,764,719</u>	<u>\$ 145,149,536</u>

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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, 2010**

<u>Data Control Codes</u>	
Net change in fund balances - total governmental funds (from C-3)	\$ 16,863,982
Amounts reported for governmental activities in the statement of activities (B-1) are different because:	
1 Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation (\$26,670,775) exceeded capital outlay (\$19,221,747) in the current period.	(8,449,028)
2 Property tax revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	2,674,346
3 Repayment of bond principal is an expenditure in the governmental fund, but the repayment reduces long-term liabilities in the statement of net assets.	18,075,000
4 Bond issuance costs paid during the current year will be amortized over the life of the bonds.	(37,712)
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:	
5 Decrease in interest payable not recognized in fund statements	111,457
6 Increase in long-term portion of accrued compensated absences.	(17,776)
7 Amortization of bond premium/discount and deferred loss on refunding bonds.	12,843
8 Market changes on certain investments are recorded in the Government-wide Statement of Activities	494,077
9 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-3).	(423,198)
Change in net assets of governmental activities (see B-1)	<u><u>\$ 29,303,991</u></u>

See Notes to the Financial Statements.

PASADENA INDEPENDENT SCHOOL DISTRICT*Exhibit D-1***STATEMENT OF NET ASSETS****PROPRIETARY FUNDS***August 31, 2010*

<u>Data Control Codes</u>		<u>Governmental Activities</u>
		<u>Internal Service Fund</u>
	Assets	
	Current Assets:	
1110-75	Cash and cash equivalents	\$ 9,979,706
1400	Other current assets	53,318
	Total current assets	<u>\$ 10,033,024</u>
	Current Liabilities:	
2110	Accounts payable	\$ 44,450
2200	Accrued expenses	2,326,551
	Total Current Liabilities	<u>2,371,001</u>
	Non-current liabilities:	
2590	Claims and judgments	4,110,049
	Total Non-current Liabilities	<u>4,110,049</u>
2000	Total Liabilities	<u>6,481,050</u>
	Net Assets	
3900	Unrestricted net assets	3,551,974
3000	Total Net Assets	<u>\$ 3,551,974</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, 2010

Exhibit D-2

<u>Data Control Codes</u>	<u>Governmental Activities</u>
	<u>Internal Service Funds</u>
Operating Revenues	
5749 Miscellaneous revenue from local sources	\$ 214,890
5754 Quasi-external interfund transactions	34,140,305
5020 Total Operating Revenues	<u>34,355,195</u>
Operating Expenses	
6100 Payroll costs	1,130,324
6400 Claims expense and other operating expenses	33,648,069
6030 Total Operating Expenses	<u>34,778,393</u>
1200 Operating Income (Loss)	(423,198)
Non-Operating Revenues (Expenses)	
7020 Investment earnings	15,162
Total Nonoperating Revenues (Expenses)	<u>15,162</u>
1200 Change in Net Assets	(408,036)
Net Assets	
0100 Net Assets - Beginning	<u>3,960,010</u>
3300 Net Assets - Ending	<u>\$ 3,551,974</u>

See Notes to the Financial Statements.

PASADENA INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended August 31, 2010

Exhibit D-3

	Governmental Activities
	Internal Service Funds
Cash Flows from Operating Activities:	
Cash received from customers	\$ 214,890
with other funds	34,160,780
Cash payments to suppliers for goods and services	(34,733,943)
Net Cash Provided by (Used for) Operating Activities	<u>(358,273)</u>
Cash Flows from Non-Capital Financing Activities:	
Advances from other funds	(111,603)
Net Cash Provided by (Used for) Non-Capital Financing Activities	<u>(111,603)</u>
Cash Flows from Investing Activities:	
Interest on investments	15,162
Net Cash Provided by Investing Activities	<u>15,162</u>
Net Increase in Cash and Cash Equivalents	(454,714)
Cash and Cash Equivalents at Beginning of Year	10,434,420
Cash and Cash Equivalents at End of Year	<u>\$ 9,979,706</u>
Reconciliation to Balance Sheet	
Cash and Cash Equivalents Per Cash Flow	\$ 9,979,706
Cash and Cash Equivalents per Balance Sheet	<u>\$ 9,979,706</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating Income (Loss)	\$ (423,198)
Adjustments to Reconcile Operating Income to Net Cash Change in Assets and Liabilities:	
Decrease (increase) in Receivables	21,491
Decrease (increase) in Other Assets	(1,018)
Increase (decrease) in Accounts Payable	44,452
Net Cash Provided by (Used for) Operating Activities	<u>\$ (358,273)</u>

See Notes to the Financial Statements.

PASADENA INDEPENDENT SCHOOL DISTRICT

Exhibit E-1

STATEMENT OF FIDUCIARY NET ASSETS

August 31, 2010

<u>Data Control Codes</u>		865
	Assets	
1110	Cash and cash equivalents	\$ 342,894
	Receivables:	
1290	Other receivables	168
	Total receivables	<u>168</u>
	Total Assets	<u>\$ 343,062</u>
	Liabilities	
2110	Accounts payable	\$ 15,257
2190	Due to others	327,805
2000	Total Liabilities	<u>\$ 343,062</u>
	Net Assets	<u>\$</u>

See Notes to the Financial Statements.

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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, 2010. 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 reserved 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 nonduty days. Nonduty 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

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

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 participated in the Temporary Liquidity Guarantee Program until January 1, 2010.

Note 2 - Deposits and Investments (continued)

Cash Deposits (continued):

As of August 31, 2010, 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."

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 2010, 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.

Note 2 - Deposits and Investments (continued)

Investments (continued):

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

	Fair Market Value	Weighted Average Maturity (Days)
Cash and deposits	9,351,487	N/A
Investments		
Local Government Investment Pools		
Lone Star	8,326,189	52
TexPool	135,057,775	29
Total Investments	<u>143,383,964</u>	30
Total Cash and Investments	<u><u>\$ 152,735,451</u></u>	

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

Governmental activities	152,392,557
Fiduciary fund	342,894
	<u><u>\$ 152,735,451</u></u>

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, 2010 was \$4,276,791.

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, 2010, 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:

	General Fund	Debt Service Funds	Capital Projects Fund	Other Governmental Funds	Total
Property Taxes	\$ 19,544,840	\$ 3,583,283	\$	\$	\$ 23,128,123
Due from other governments	12,889,841			6,478,236	19,368,077
Other	94,119	21,700		3,994	119,813
Gross Receivables	<u>32,528,800</u>	<u>3,604,983</u>		<u>6,482,230</u>	<u>42,616,013</u>
Less allowance for doubtful accounts	(6,159,774)	(864,938)			(7,024,712)
Net Total Receivables	<u><u>\$ 26,369,026</u></u>	<u><u>\$ 2,740,045</u></u>	<u><u>\$</u></u>	<u><u>\$ 6,482,230</u></u>	<u><u>\$ 35,591,301</u></u>

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:

	Unavailable	Unearned
Delinquent property taxes receivable (General Fund)	13,385,066	\$
Delinquent property taxes receivable (Debt Service Fund)	2,718,345	
Grant funds received prior to meeting all eligibility requirements		368,106
	<u><u>\$ 16,103,411</u></u>	<u><u>368,106</u></u>

Note 4 - Capital Assets

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

	Balance			Balance
	August 31, 2009	Additions	(Retirements and Transfers)	August 31, 2010
Capital assets, not being depreciated				
Land	\$ 53,453,854		\$ (3,781)	\$ 53,450,073
Construction in progress	2,871,153	1,060,834	(2,871,153)	1,060,834
Total Capital Assets, not being depreciated	<u>56,325,007</u>	<u>1,060,834</u>	<u>(2,874,934)</u>	<u>54,510,907</u>
Capital assets, being depreciated				
Buildings and improvements	769,807,876	12,673,099	2,660,579	785,141,554
Furniture and equipment	84,079,332	5,491,592	(5,567)	89,565,357
Capital lease assets	1,505,212			1,505,212
Total Capital Assets, being depreciated	<u>855,392,420</u>	<u>18,164,691</u>	<u>2,655,012</u>	<u>876,212,123</u>
Less accumulated depreciation for:				
Buildings and improvements	(173,640,021)	(19,435,562)	210,573	(192,865,010)
Furniture and Equipment	(48,217,419)	(8,196,053)	5,567	(56,407,905)
Capital lease assets	(1,257,245)	(39,159)		(1,296,404)
Total Accumulated Depreciation	<u>(223,114,685)</u>	<u>(27,670,774)</u>	<u>216,140</u>	<u>(250,569,319)</u>
Governmental Capital Assets	<u><u>\$ 688,602,742</u></u>	<u><u>\$ (8,445,249)</u></u>	<u><u>\$ (3,782)</u></u>	<u><u>\$ 680,153,711</u></u>

Note 4 - Capital Assets (continued)

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

	Function	Depreciation Expense
11	Instruction	\$ 16,694,917
12	Instructional resources and media services	411,166
13	Curriculum and staff development	371,159
21	Instructional leadership	290,753
23	School leadership	2,191,790
31	services	911,009
32	Social work services	12,592
33	Health services	319,994
34	Student transportation	858,318
35	Food Services	2,122
36	Extracurricular activities	454,656
41	General administration	698,543
51	Facilities maintenance and operations	3,595,125
52	Security and monitoring services	299,833
53	Data processing services	543,321
61	Community services	15,476
		<u>\$ 27,670,774</u>

Construction Commitments

The District has active construction projects as of August 31, 2010. The projects include the construction and equipment of school facilities. At year-end, the District's commitments with contractors are as follows:

Project	Approved Construction Budget	Construction in Progress	Remaining Commitment
Gear Up Pasadena Center	\$ 337,522	\$ 316,026	\$ 21,496
Challenger School Special Programs Move	31,918	30,000	1,918
Admin Building Repair Vehicle Damage	2,918	2,600	318
Tegeler Career Center Portables	197,311	183,214	14,097
Skill Center Portables	348,098	328,088	20,010
Pearl Hall Elementary Portables	279,770	194,906	84,864
Admin Building Repair Entry Columns	11,730	6,000	5,730
	<u>\$ 1,209,267</u>	<u>\$ 1,060,834</u>	<u>\$ 148,433</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. The District had no interfund balances as of August 31, 2010.

Interfund transfers are defined as “flows of assets without equivalent flow of assets in return and without a requirement for repayment.” The following is a summary of the District’s transfers for the year ended August 31, 2010:

<u>Transfer Out</u>	<u>Transfer In</u>	<u>Amount</u>
General Fund		\$ (500,000)
	Capital Projects	\$ 500,000
		<u>\$</u>

Note 6 - Long-Term Liabilities

Changes in Long-Term Liabilities

Long-term liability activity for the year ended August 31, 2010, was as follows:

	<u>Balance August 31, 2009</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance August 31, 2010</u>	<u>Due Within One Year</u>
General obligation bonds	\$ 454,255,000	\$ 56,385,000	\$ (76,160,000)	434,480,000	\$ 14,515,000
Less deferred amounts:					
For issuance premiums/discounts	3,070,453	4,999,667	(236,039)	7,834,081	
Gain or loss on refunding bonds	(2,680,189)	(2,749,274)	223,196	(5,206,267)	
Accrued compensated absences	2,003,200	256,415	(238,639)	2,020,976	236,313
Long-term worker's compensation	4,184,437	2,204,560	(2,278,948)	4,110,049	
	<u>\$ 460,832,901</u>	<u>\$ 61,096,368</u>	<u>\$ (78,690,430)</u>	<u>\$ 443,238,839</u>	<u>\$ 14,751,313</u>

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.

On July 29, 2010, the District issued Unlimited Tax Refunding Bonds, Series 2010 in the amount of \$56,385,000. Proceeds from the sale of the bonds were used to refund \$58,085,000 of General Obligation Bonds. As a result, the refunded bonds are considered to be defeased. The reacquisition price exceeded the net carrying amount of the old debt by \$2,749,274. This amount is being netted against the new debt and amortized over the life of the refunded debt, which is shorter than the new debt’s. The transaction resulted in an economic gain of \$4,613,906 and a reduction of \$6,382,634 in future debt service payments.

Note 6 - Long-Term Liabilities (continued)

The following is a summary of changes in the general obligation bonds for the fiscal year:

<u>Issue</u>	<u>Original Issuance Amount</u>	<u>Interest Rate (%)</u>	<u>Maturity Date</u>	<u>Debt Outstanding</u>
Variable Rate Unlimited Tax School Building Bonds, Series 1996A	\$ 18,100,000	6.05%	2/15/2016	\$ 1,100,000
Variable Rate Unlimited Tax School Building Bonds, Series 2000A	50,000,000	6.00%	2/15/2029	37,600,000
Unlimited Tax School Building Bonds, Series 2002	114,050,000	4.500-5.125%	8/31/2029	3,845,000
Unlimited Tax School Building & Refunding Bonds, Series 2005	36,059,737	3.00-5.00%	2/15/2021	24,070,000
Unlimited Tax Refunding Bonds, Series 2005 A	14,605,000	3.00-5.00%	2/15/2017	9,880,000
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	3.50-3.625%	2/15/2013	670,000
Unlimited Tax Refunding Bonds, Series 2006	118,020,000	4.00-5.00	2/15/2036	113,330,000
Unlimited Tax Refunding Bonds, Series 2007	66,980,000	4.00-5.00%	2/15/2026	65,705,000
Unlimited Tax Refunding Bonds, Series 2008	42,930,000	3.00-5.00%	2/15/2022	41,995,000
Unlimited Tax Refunding Bonds, Series 2010	56,385,000	2.5-5.0%	2/15/2029	56,385,000
				<u>\$ 434,480,000</u>

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

<u>Year Ending August 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2011	\$ 14,515,000	\$ 20,358,975	\$ 34,873,975
2012	13,490,000	19,848,980	33,338,980
2013	12,705,000	19,294,574	31,999,574
2014	13,025,000	18,711,121	31,736,121
2015	13,885,000	18,035,171	31,920,171
2016-2020	90,345,000	77,357,911	167,702,911
2021-2025	102,935,000	52,596,821	155,531,821
2026-2030	94,590,000	28,344,701	122,934,701
2031-2035	69,945,000	10,529,794	80,474,794
2036	9,045,000	214,819	9,259,819
	<u>\$ 434,480,000</u>	<u>\$ 265,292,867</u>	<u>\$ 699,772,867</u>

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, 2010, \$ 116,305,000 of refunded bonds outstanding are considered defeased.

Note 6 - Long-Term Liabilities (continued)

Swap Agreement

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 an interest rate swap transaction pursuant to agreements (the swap agreements) with Bank of America Merrill Lynch (BOAML) and Morgan Stanley Capital Services Inc. (MSCS); each in an original notional amount of \$39,950,000 in order to synthetically fix the interest obligation 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.

Under the swap agreements, the District is obligated to make payments to BOAML and MSCS calculated on a notional amount that is equal to the scheduled outstanding principal amount of the Bonds at a fixed rate of 3.689% per annum, and BOAML and MSCS are each 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 68.0% on the one-month LIBOR index.

In the fall of 2006, an amendment (additional swap layer) was added to each of the original transactions, altering the terms in that the counterparties were each obligated to make floating rate payments to the District calculated on a notional amount at a rate equal to 60.2% of the ten-year USD ISDA swap rate. The amendment was effective November 1, 2007.

Effective April 19, 2010, the swap layer added in 2006 was effectively unwound through a second amendment, resulting in the rate paid by BOAML and MSCS reverting back to 68% of the one-month LIBOR index. The scheduled outstanding principal amount of the Bonds was \$79,900,000 at August 31, 2010. The District received cash in the amount of \$1,603,050 and \$1,658,150 from BOAML and MSCS, respectively, upon amending the agreement. The bonds and the swap agreements have a stated final maturity date of August 15, 2035.

The savings in interest expenditures realized by participating in the swap agreement has resulted in \$15,232,324 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.

Arrangements made in respect of the swap agreements do not alter the District's obligation to pay principal and interest on the Bonds. The swap agreements do not provide a source of security or other credit for the Bonds. The District's obligations under the swap agreements are secured by a levy of an annual ad valorem tax on a parity with the District's obligation to pay principal and interest on the Bonds.

As of August 31, 2010 the fair value of the swaps determined by BOAML and MSCS, based on the prevailing interest rates on that date and calculated through the end of the agreements, was a negative \$18,804,995. 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 and the District is required to pay the negative amount. BOAML and MSCS do not have the elective right to optionally terminate the swap agreements. In the event of an involuntary termination, 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). The negative fair value of the swap agreements does not expose the District to a loss because it is unlikely the District would exercise its termination rights when the fair value is negative. However, should interest rates change and the fair value of the swap agreements become positive, the District would receive payment in the amount of the fair value if the agreements were terminated.

Note 6 - Long-Term Liabilities (continued)

Swap Agreement (continued)

The swap agreements are subject to mandatory redemption in the event of default or as follows:

- Agreement with BOAML: If the ratings assigned to either the District's or BOAML's unenhanced long-term debt obligations are withdrawn or reduced to BBB- by S&P or Baa3 by Moody's.
- Agreement with MSCS: If the ratings assigned to either the District's or MSCS's unenhanced long-term debt obligations are withdrawn or reduced to BBB- by S&P or Baa3 by Moody's.
- As of August 31, 2010 BOAML was rated A2 and A by Moody's and S&P, respectively while MSCS was rated A2 and A by Moody's Investors Service and Standard & Poor's, respectively.

As of August 31, 2010, the debt service requirements of the Bonds were as follows. As interest rates change in the future, the differences between the floating rates payable to the District under the swap agreements and the actual interest rates payable by the District on the Bonds will vary.

Variable Rate Bonds

Year Ending	Principal	Interest	Totals
2011	\$	\$ 3,854,376	\$ 3,854,376
2012	-	3,854,376	3,854,376
2013	-	3,854,376	3,854,376
2014	-	3,854,376	3,854,376
2015	-	3,854,376	3,854,376
2016-35	79,900,000	52,358,490	132,258,490
	<u>\$ 79,900,000</u>	<u>\$ 71,630,370</u>	<u>\$ 151,530,370</u>

Interest was calculated at a rate, representing the sum of: (a) the actual fixed payment swap rate of 3.689% pursuant to the Swap Agreements; (b) the estimated cost of the liquidity facility for the Bonds (0.55%); (c) the estimated cost of remarketing the Bonds (0.125%); and (d) 0.460% per year to offset the potential differences between the floating rates payable to the District under the swap agreements and the actual interest rates payable by the District on the Bonds.

The swap agreements were determined to the effective cash flow hedges using the synthetic instrument method of analysis as of August 31, 2010, therefore, hedge accounting was applied and the fair value of the swap has been recorded in the Statement of Net Assets as Deferred Inflows: Interest Rate Swap as an asset and Deferred Outflows: Interest Rate Swap in the liability section.

The affect of the SWAP on the financial statements at August 31, 2010 follows:

	Changes in Fair Value		Fair Value at August 31, 2010		Notional
	Classification	Amount	Classification	Amount	
Governmental Activities					
Cash Flow Hedge:					
Pay-fixed interest rate swap	Deferred Outflow	\$ (18,804,995)	Liability	\$(18,804,995)	\$ 79,900,000

Note 6 - Long-Term Liabilities (continued)

Swap Agreement (continued)

Additionally, in order 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 (the swap agreement) with Citibank N.A. in an original notional amount of \$40,000,000. The swap agreement became effective on September 26, 2006.

Under the swap agreement, the District is obligated to make monthly payments to Citibank calculated on a notional amount that is equal to the scheduled outstanding principal amount of the Bonds at the Bond Market Association (BMA) 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 London Interbank Offered Rate (LIBOR) for U.S. deposits. The Bonds and the swap agreements have a stated final maturity date of August 15, 2036.

Arrangements made in respect of the swap agreement do not alter the District's obligation to pay principal and interest on the Bonds. The swap agreement does not provide a source of security or other credit for the Bonds. The District's obligations under the swap agreement are secured by a levy of an annual ad valorem tax on a parity with the District's obligation to pay principal and interest on the Bonds.

As of August 31, 2010 the fair value of the swap determined by Citibank, based on the prevailing interest rates on that date and calculated through the end of the agreement, was a positive \$494,077. With the positive fair value of the swap agreement, the District is exposed to a loss in the amount of the fair value if that value changes to a negative amount. However, should interest rates change and the fair value of the swap agreement become negative, the District would be exposed to a loss in the amount of the fair value of the swap agreement only if the agreement were terminated. The District has the unilateral right to voluntarily terminate the swap agreement at any time over its term at the then prevailing market value. It is unlikely the District would terminate the agreement if the fair value were negative because it would be required to pay the negative amount. Citibank does not have the elective right to optionally terminate the swap agreement. In the event of an involuntary termination, the District's options are to terminate with the swap provider at agreed market value, assign the swap to a third party based on bids or quotes, or enter into an off-setting transaction. Net receipts under the swap contract from inception to August 31, 2010 were \$1,650,340.

The Swap Agreement is subject to mandatory redemption in the event of default or as follows:

- Agreement with Citibank: If the ratings assigned to either the District's or Citibank's unenhanced long-term debt obligations are withdrawn or reduced to BBB- by S&P or Baa3 by Moody's.
- As of August 31, 2010, Citibank was rated A3 and A by Moody's Investors Service and Standard & Poor's, respectively.

As described in subsequent events (Note 16), the District terminated the constant maturity swap with Citibank on November 16, 2010. Due to the pending termination, the District no longer considered the swap agreement effective at August 31, 2010 and recorded the change in market value of \$494,077 as investment income in the Statement of Activities.

Note 6 - Long-Term Liabilities (continued)

Swap Agreement (continued)

As of August 31, 2010, the debt service requirements of the Bonds were as follows. As interest rates change in the future, the differences between the floating rates payable to the District under the Swap Agreement and the actual interest rates payable by the District on the Bonds will vary.

Related Fixed Rate Bonds

Year Ending	Principal	Interest	Totals
2011	\$ -	\$ 1,900,000	\$ 1,900,000
2012	-	1,900,000	1,900,000
2013	-	1,900,000	1,900,000
2014	-	1,900,000	1,900,000
2015	-	1,900,000	1,900,000
2016-35	40,000,000	35,602,200	75,602,200
	<u>\$ 40,000,000</u>	<u>\$ 45,102,200</u>	<u>\$ 85,102,200</u>

Operating Leases

Commitments under operating lease agreements for facilities and equipment provide for minimum future rental payments. As of August 31, 2010, these payments were as follows:

Year Ending	Amounts
August 31	
2011	\$ 1,293,704
2012	774,783
2013	24,660
Total minimum lease payments	<u>\$ 2,093,147</u>

Rental Expenditures in Fiscal Year 2010 were \$1,832,837.

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:

	General Fund	Debt Service Fund	Capital Projects Fund	Other Governmental Funds	Total
Property Taxes	\$ 107,616,951	\$ 27,996,532	\$ -	\$ -	\$ 135,613,483
Investment Income	197,735	3,538,253	65,372	9,192	3,810,552
Co-curricular Student Activities	482,574			2,917,538	3,400,112
Food Sales				5,187,099	5,187,099
Other	7,523,937			421,012	7,944,949
	<u>\$ 115,821,197</u>	<u>\$ 31,534,785</u>	<u>\$ 65,372</u>	<u>\$ 8,534,841</u>	<u>\$ 155,956,195</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, under the TRS Publications heading.

Funding Policy

Contribution requirements are not actuarially determined but are established and amended by the Texas state legislature. The state funding policy is as follows: (1) The state constitution requires the legislature to establish a member contribution rate of not less than 6.0% of the member's annual compensation and a state contribution rate of not less than 6.0% and not more than 10% 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 2010, 2009 and 2008, and a state contribution rate of 6.644% for fiscal year 2010 and 6.58% for fiscal years 2009 and 2008. In certain instances the reporting district is required to make all or a portion of the state's 6.644% contribution, limited to 6.4% for the period of September through December 2009 and increased to 6.644% for the period of January through August 2010.

Contributions

Staff members of the District are required to pay 6.4% of their eligible gross earnings to the TRS pension plan. The State of Texas contributes 6.644% for fiscal year 2010 and 6.58% for fiscal years 2009 and 2008 of all employees' eligible gross earnings, except for those staff members subject to statutory minimum requirements and those staff members being paid from and participating in federally funded programs. State statutes establish these rates. The statutory minimum requirements are based on the State of Texas teacher schedule adjusted based on local tax rates. For staff members funded by federal programs, the federal programs are required to contribute 6.644% (6.58% for fiscal years 2009 and 2008).

Note 8 - Pension Information

Plan Description (continued)

Contributions made by the State, District and staff members to TRS for the years ended August 31, 2010, 2009, and 2008, 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
2010	\$ 15,288,578	\$ 4,216,455	\$ 18,907,161	\$ 294,645,592
2009	15,266,703	3,824,098	18,165,317	290,133,755
2008	14,241,279	3,509,373	17,265,075	269,766,797

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, 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 2010, 2009, and 2008. 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

Contributions

Contributions made by the State, District and staff members, for the years ended August 31, 2010, 2009 and 2008, 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
2010	\$ 2,323,052	\$ 623,404	\$ 1,920,280	\$ 294,645,592
2009	2,320,171	581,167	1,884,919	290,133,755
2008	2,493,451	202,216	1,642,313	269,766,797

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, 2010, 2009, and 2008, the subsidy payments received by TRS-Care on-behalf of the District were \$722,001, \$653,348, and \$610,681 respectively. These payments are recorded as equal revenues and expenditures in the governmental funds financial statements of the District.

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, 2010, 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, 2009, in reported claims that were unpaid and estimated incurred, but not reported, claims of \$2,326,551 . 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 2010 and 2009 is as follows:

	<u>2010</u>	<u>2009</u>
Accrual, September 1	\$ 2,363,766	\$ 3,108,110
Current year estimates	28,335,354	23,760,555
Payments for claims	28,372,569	24,504,899
Accrual, August 31	<u>\$ 2,326,551</u>	<u>\$ 2,363,766</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 \$4,110,049 as of August 31, 2010, 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 \$4,110,049 includes incurred but not reported claims. This liability reported in the fund at August 31, 2010, 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>
2001	302
2002	333
2003	322
2004	337
2005	377
2006	386
2007	325
2008	366
2009	312
2010	362
10-Year Average	<u><u>342</u></u>

Changes in the worker’s compensation claims liability amounts in fiscal years 2010, 2009 and 2008 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>		
2010	\$ 4,184,437	\$ 2,204,560	\$ 2,278,948	\$ 4,110,049
2009	4,187,594	2,407,684	2,410,841	4,184,437
2008	4,523,831	2,125,879	2,462,116	4,187,594

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, 2010.

Note 16 – Subsequent Events

On November 16, 2010 the District terminated its constant maturity swap with Citibank N.A. based on a positive fair value in the market and received a \$1,588,135 cash payment.

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, 2010

	Budgeted Amounts		Actual Amounts, Budgetary Basis	Variance with Final Budget - Positive (Negative)	
	Original	Final			
Revenues					
5700	Local revenues	\$ 118,017,530	\$ 115,486,826	\$ 115,821,197	\$ 334,371
5800	State program revenues	250,348,638	241,318,453	244,433,229	3,114,776
5900	Federal program revenues	3,552,469	3,552,469	10,063,120	6,510,651
5020	Total revenues	<u>371,918,637</u>	<u>360,357,748</u>	<u>370,317,546</u>	<u>9,959,798</u>
Expenditures					
Current:					
0011	Instruction	231,939,987	211,539,063	206,931,932	4,607,131
0012	Instruction resources and media services	5,623,345	5,659,139	5,270,929	388,210
0013	Curriculum and instructional staff development	4,593,681	4,780,918	4,758,046	22,872
0021	Instructional leadership	3,457,528	3,711,932	3,709,289	2,643
0023	School leadership	26,595,835	28,466,053	28,097,497	368,556
0031	Guidance, counseling and evaluation services	11,702,066	12,383,499	11,678,636	704,863
0032	Social work services	153,641	198,641	161,417	37,224
0033	Health services	4,071,817	4,207,651	4,102,175	105,476
0034	Student transportation	10,265,872	11,618,763	11,003,150	615,613
0035	Food services	12,209	42,209	27,203	15,006
0036	Extracurricular activities	5,800,641	6,665,156	5,828,450	836,706
0041	General administration	8,865,816	9,592,821	8,954,931	637,890
0051	Facilities maintenance and operations	46,279,652	48,677,800	46,087,468	2,590,332
0052	Security and monitoring services	3,821,952	4,222,772	3,843,695	379,077
0053	Data processing services	4,756,288	8,461,124	6,965,059	1,496,065
0061	Community services	511,615	339,615	198,407	141,208
Debt Service:					
0071	Principal on long-term debt	282,775	280,000	280,000	
0072	Interest on long-term debt	39,917	38,232	28,231	10,001
0081	Capital outlay	1,225,000	7,465,436	5,366,203	2,099,233
0095	Payments to Juvenile Justice Alternative Education Programs	594,000	594,000	340,200	253,800
0099	Other intergovernmental charges	1,325,000	1,325,000	1,136,522	188,478
6030	Total Expenditures	<u>371,918,637</u>	<u>370,269,824</u>	<u>354,769,440</u>	<u>15,500,384</u>
1100	Excess (deficiency) of revenues over expenditures		<u>(9,912,076)</u>	<u>15,548,106</u>	<u>25,460,182</u>
Other Financing Sources (Uses)					
7912	Sale of real or personal property			1,921	1,921
8911	Transfers out		(500,000)	(500,000)	
7080	Total other financing sources and uses		<u>(500,000)</u>	<u>(498,079)</u>	<u>1,921</u>
1200	Net change in fund balances		(10,412,076)	15,050,027	25,462,103
0100	Fund balances - beginning	<u>72,216,035</u>	<u>72,216,035</u>	<u>72,216,035</u>	
3000	Fund balances - ending	<u>\$ 72,216,035</u>	<u>\$ 61,803,959</u>	<u>\$ 87,266,062</u>	<u>\$ 25,462,103</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, 2010.

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, 2009. 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, 2010

	204	211	212
Data Control Codes	Title IV Safe & Drug Free	ESEA Title I Part A	ESEA Title I Part C
Assets			
1110 Cash and temporary investments	\$	\$ 11,660	\$ 7,814
Receivables:			
1240 Receivables from other governments		944,410	27,811
1260 Due from other funds			
1290 Other receivables			
1310 Inventories, at cost			
1410 Prepaid expenses		191,568	
1000 Total Assets	\$	\$ 1,147,638	\$ 35,625
Liabilities and Fund Balance			
Liabilities:			
Current Liabilities:			
2110 Accounts payable	\$	\$ 1,147,638	\$ 34,247
2160 Accrued wages payable			1,378
2170 Due to other funds			
2180 Due to other governments			
2300 Deferred revenues			
2000 Total Liabilities		1,147,638	35,625
Fund Balance:			
Reserved for:			
3410 Investments in inventories			
3430 Prepaid items			
3440 Encumbrances			
3450 Food service operations			
Unreserved, Undesignated Reported in:			
3610 Special revenue funds			
3000 Total Fund Balances			
4000 Total Liabilities and Fund Balance	\$	\$ 1,147,638	\$ 35,625

224	225	240	242	244	255	262
IDEA B Formula	IDEA B Preschool Grant	Child Nutrition	Summer Feeding Program	Vocational Ed - Basic	ESEA Title II, Part A	Enhancing Ed Through Technology
\$ 637	\$	\$ 6,562,714	\$ 10,309	\$ 832	\$	\$
514,915	7,899	343,613		73,956	204,784	
		38				
		689,355				
111,518	3,358	249,911			27,966	
<u>\$ 627,070</u>	<u>\$ 11,257</u>	<u>\$ 7,845,631</u>	<u>\$ 10,309</u>	<u>\$ 74,788</u>	<u>\$ 232,750</u>	<u>\$</u>
\$ 627,070	\$ 11,257	\$ 2,186,492	\$	\$ 74,367 421	\$ 232,750	\$
<u>627,070</u>	<u>11,257</u>	<u>2,186,492</u>		<u>74,788</u>	<u>232,750</u>	
		689,355				
		249,911				
		145,654				
		4,574,219	10,309			
		<u>5,659,139</u>	<u>10,309</u>			
<u>\$ 627,070</u>	<u>\$ 11,257</u>	<u>\$ 7,845,631</u>	<u>\$ 10,309</u>	<u>\$ 74,788</u>	<u>\$ 232,750</u>	<u>\$</u>

PASADENA INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET
ALL NON-MAJOR GOVERNMENTAL FUNDS
August 31, 2010

Data Control Codes	263 ESEA Title III	265 21st Century Grant	266 State Fiscal Stabilization Fund	
Assets				
1110	Cash and temporary investments	\$ 6,181	\$ 675	\$
Receivables:				
1240	Receivables from other governments	72,852	156,159	2,338,018
1260	Due from other funds			
1290	Other receivables			
1310	Inventories, at cost			
1410	Prepaid expenses	11,319		
1000	Total Assets	\$ 90,352	\$ 156,834	\$ 2,338,018
Liabilities and Fund Balance				
Liabilities:				
Current Liabilities:				
2110	Accounts payable	\$ 90,352	\$ 153,832	\$ 2,338,018
2160	Accrued wages payable		3,002	
2170	Due to other funds			
2180	Due to other governments			
2300	Deferred revenues			
2000	Total Liabilities	90,352	156,834	2,338,018
Fund Balance:				
Reserved for:				
3410	Investments in inventories			
3430	Prepaid items			
3440	Encumbrances			
3450	Food service operations			
Unreserved, Undesignated Reported in:				
3610	Special revenue funds			
3000	Total Fund Balances			
4000	Total Liabilities and Fund Balance	\$ 90,352	\$ 156,834	\$ 2,338,018

274	279	280	283	284	285	287
Gear Up	Title II, Part D- ARRA	TXHERRA (ARRA)	IDEA B Special Education - Stimulus	IDEA B ARRA Funding	Title I, Part A-Stimulus	Homeless Education and Disaster Assistance
\$ 25,361	\$ 3,592	\$ 7,147	\$ 166,904	\$ 5,530	\$ 105,604	\$
136,125	26,650		253,321	5,530	283,218	31,399
			1,348		81,154	
<u>\$ 161,486</u>	<u>\$ 30,242</u>	<u>\$ 7,147</u>	<u>\$ 421,573</u>	<u>\$ 11,060</u>	<u>\$ 469,976</u>	<u>\$ 31,399</u>
\$ 155,191 6,295	\$ 30,242	\$ 7,147	\$ 421,573	\$ 11,060	\$ 469,976	\$ 31,399
<u>161,486</u>	<u>30,242</u>	<u>7,147</u>	<u>421,573</u>	<u>11,060</u>	<u>469,976</u>	<u>31,399</u>
<u>\$ 161,486</u>	<u>\$ 30,242</u>	<u>\$ 7,147</u>	<u>\$ 421,573</u>	<u>\$ 11,060</u>	<u>\$ 469,976</u>	<u>\$ 31,399</u>

PASADENA INDEPENDENT SCHOOL DISTRICT

COMBINING BALANCE SHEET

ALL NON-MAJOR GOVERNMENTAL FUNDS

August 31, 2010

<u>Data Control Codes</u>	288	289	394
	Internet Crimes Against Children	Title V Special Projects	Pregnancy, Education, and Parenting Program
Assets			
1110	Cash and temporary investments	\$ 32,933	\$
Receivables:			
1240	Receivables from other governments	110,391	135,869
1260	Due from other funds		757
1290	Other receivables		
1310	Inventories, at cost		
1410	Prepaid expenses		
1000	Total Assets	\$ 143,324	\$ 135,869
Liabilities and Fund Balance			
Liabilities:			
Current Liabilities:			
2110	Accounts payable	\$ 142,736	\$ 90,570
2160	Accrued wages payable	588	1,185
2170	Due to other funds		
2180	Due to other governments		
2300	Deferred revenues		44,114
2000	Total Liabilities	143,324	135,869
Fund Balance:			
Reserved for:			
3410	Investments in inventories		
3430	Prepaid items		
3440	Encumbrances		
3450	Food service operations		
Unreserved, Undesignated Reported in:			
3610	Special revenue funds		
3000	Total Fund Balances		
4000	Total Liabilities and Fund Balance	\$ 143,324	\$ 135,869

397	399	401	404	409	411	425
Advanced Placement Incentive	Investment Capital Funds	Optional Extended Year Program	Student Succ. Init-Acc REA	Basic Skills / HS Students	Technology	Texas Fitness Now
\$ 79,002	\$	\$	\$	\$ 6,445	\$ 82,607	\$
	52,898	233,598	62,171	52,876		
<u>\$ 79,002</u>	<u>\$ 52,898</u>	<u>\$ 233,598</u>	<u>\$ 62,171</u>	<u>\$ 59,321</u>	<u>\$ 82,607</u>	<u>\$</u>
\$ 371	\$ 52,898	\$ 233,598	\$ 62,171	\$ 13,468 413	\$	\$
78,631				45,440		
<u>79,002</u>	<u>52,898</u>	<u>233,598</u>	<u>62,171</u>	<u>59,321</u>		
					82,607	
					82,607	
<u>\$ 79,002</u>	<u>\$ 52,898</u>	<u>\$ 233,598</u>	<u>\$ 62,171</u>	<u>\$ 59,321</u>	<u>\$ 82,607</u>	<u>\$</u>

PASADENA INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET
ALL NON-MAJOR GOVERNMENTAL FUNDS
August 31, 2010

Data Control Codes	426	427	429
	Texas Ed Excellence Award	Laura Bush Foundation/ HB 1 Mentors	Other Grants
Assets			
1110	Cash and temporary investments	\$	\$ 6,682
Receivables:			
1240	Receivables from other governments		618 215,414
1260	Due from other funds		
1290	Other receivables		
1310	Inventories, at cost		
1410	Prepaid expenses		2,578
1000	Total Assets	\$	\$ 224,674
Liabilities and Fund Balance			
Liabilities:			
Current Liabilities:			
2110	Accounts payable	\$	\$ 150,938
2160	Accrued wages payable		
2170	Due to other funds		
2180	Due to other governments		1,497
2300	Deferred revenues		72,239
2000	Total Liabilities		618 224,674
Fund Balance:			
Reserved for:			
3410	Investments in inventories		
3430	Prepaid items		
3440	Encumbrances		
3450	Food service operations		
Unreserved, Undesignated Reported in:			
3610	Special revenue funds		
3000	Total Fund Balances		
4000	Total Liabilities and Fund Balance	\$	\$ 224,674

461	480	495	497	498	
Campus Activity Funds	PISD Ed Foundation Grants	Internet Crimes Against Children	Measurable Outcomes	CASE Partnership	Total Nonmajor Governmental Funds
\$ 2,123,421	\$ 130,603	\$	\$ 3,062	\$	\$ 9,379,715
				192,984	6,478,236
3,956					3,994
					689,355
				2,955	683,675
<u>\$ 2,127,377</u>	<u>\$ 130,603</u>	<u>\$</u>	<u>\$ 3,062</u>	<u>\$ 195,939</u>	<u>\$ 17,234,975</u>
\$ 114,713	\$ 16,394	\$	\$	\$ 140,089	\$ 9,041,932
					13,282
					46,937
	114,209		3,062	55,850	368,105
<u>114,713</u>	<u>130,603</u>	<u></u>	<u>3,062</u>	<u>195,939</u>	<u>9,470,256</u>
					689,355
					249,911
102,077					247,731
					4,584,528
1,910,587					1,993,194
<u>2,012,664</u>	<u></u>	<u></u>	<u></u>	<u></u>	<u>7,764,719</u>
<u>\$ 2,127,377</u>	<u>\$ 130,603</u>	<u>\$</u>	<u>\$ 3,062</u>	<u>\$ 195,939</u>	<u>\$ 17,234,975</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, 2010

Data Control Codes	204	211	212
	Title IV Safe & Drug Free	ESEA Title I Part A	ESEA Title I Part C
Revenues			
5700	\$	\$	\$
5800			
5900	223,834	15,075,266	215,062
5020	223,834	15,075,266	215,062
Expenditures			
Current:			
0011	13,680	12,403,991	82,338
0012			
0013	141,302	279,265	124,111
0021		411,395	8,404
0023		176,626	
0031		1,475,132	
0032			
0033		101,141	
0034			
0035			
0036			
0041			
0051		434	209
0052	68,852		
0061		227,282	
6030	223,834	15,075,266	215,062
1100			
Other Financing Sources (Uses)			
8949			
7080			
1200			
0100			
3000	\$	\$	\$

224	225	240	242	244	255	262
IDEA B Formula	IDEA B Preschool Grant	Child Nutrition	Summer Feeding Program	Vocational Ed -Basic	ESEA Title II, Part A	Enhancing Ed Through Technology
\$	\$	\$ 5,196,291 572,401	\$	\$	\$	\$
7,402,718	165,854	23,179,040		694,955	2,844,078	188,235
7,402,718	165,854	28,947,732		694,955	2,844,078	188,235
4,044,439	165,854			458,201	1,550,923	131,485
504,754					954,689	56,750
220,646					325,650	
2,621,083				236,754		
11,003						
		27,645,751				
793					12,816	
7,402,718	165,854	27,645,751		694,955	2,844,078	188,235
		1,301,981				
		1,301,981				
		4,357,158	10,309			
\$	\$	\$ 5,659,139	\$ 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, 2010

Data Control Codes		263	265	266
		ESEA Title III	21st Century Grant	State Fiscal Stabilization Fund
	Revenues			
5700	Local, intermediate, and out-of-state	\$	\$	\$
5800	State program revenues			
5900	Federal program revenues	1,683,974	539,853	23,380,185
5020	Total revenues	<u>1,683,974</u>	<u>539,853</u>	<u>23,380,185</u>
	Expenditures			
	Current:			
0011	Instruction	1,348,959	295,374	22,674,224
0012	Instruction resources and media services			395,833
0013	Curriculum and instructional staff development	293,912		
0021	Instructional leadership	41,103		
0023	School leadership		244,380	
0031	Guidance, counseling and evaluation services			310,128
0032	Social work services			
0033	Health services			
0034	Student transportation			
0035	Food service			
0036	Extracurricular activities			
0041	General administration			
0051	Facilities maintenance and operations			
0052	Security and monitoring services			
0061	Community services		99	
6030	Total Expenditures	<u>1,683,974</u>	<u>539,853</u>	<u>23,380,185</u>
1100	Excess (deficiency) of revenues over expenditures			
	Other Financing Sources (Uses)			
8949	Other uses			
7080	Total Other Financing Sources (Uses)			
1200	Net change in fund balances			
0100	Fund balance - Beginning			
3000	Fund balance - Ending	<u>\$</u>	<u>\$</u>	<u>\$</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, 2010

Data Control Codes		288	289	394
		Internet Crimes Against Children	Title V Special Projects	Pregnancy, Education, and Parenting Program
	Revenues			
5700	Local, intermediate, and out-of-state	\$	\$	\$
5800	State program revenues			35,904
5900	Federal program revenues	333,917	481,944	
5020	Total revenues	333,917	481,944	35,904
	Expenditures			
	Current:			
0011	Instruction		29,863	35,904
0012	Instruction resources and media services			
0013	Curriculum and instructional staff development		243,388	
0021	Instructional leadership		2,241	
0023	School leadership			
0031	Guidance, counseling and evaluation services		20,000	
0032	Social work services			
0033	Health services			
0034	Student transportation			
0035	Food service		18,120	
0036	Extracurricular activities			
0041	General administration			
0051	Facilities maintenance and operations	11,045	113,729	
0052	Security and monitoring services	322,872	54,603	
0061	Community services			
6030	Total Expenditures	333,917	481,944	35,904
1100	Excess (deficiency) of revenues over expenditures			
	Other Financing Sources (Uses)			
8949	Other uses			
7080	Total Other Financing Sources (Uses)			
1200	Net change in fund balances			
0100	Fund balance - Beginning			
3000	Fund balance - Ending	\$	\$	\$

397	399	401	404	409	411	425
Advanced Placement Incentive	Investment Capital Funds	Optional Extended Year Program	Student Succ. Init-Acc REA	Basic Skills / HS Students	Technology	Texas Fitness Now
\$ 26,826	\$ 148,014	\$ 233,598	\$ 645,907	\$ 470,960	\$ 1,420,005	\$ 601,836
<u>26,826</u>	<u>148,014</u>	<u>233,598</u>	<u>645,907</u>	<u>470,960</u>	<u>1,420,005</u>	<u>601,836</u>
26,826	68,435	233,598	645,663	381,596	1,420,480	374,155
	79,579			41,910		227,681
				2,803		
				39,393		
				5,258		
			244			
<u>26,826</u>	<u>148,014</u>	<u>233,598</u>	<u>645,907</u>	<u>470,960</u>	<u>1,420,480</u>	<u>601,836</u>
					(475)	
					(475)	
					83,082	
<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ 82,607</u>	<u>\$</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, 2010

Data Control Codes		426	427	429
		Texas Ed Excellence Award	Laura Bush Foundation/ HB 1 Mentors	Other Grants
	Revenues			
5700	Local, intermediate, and out-of-state	\$	\$	\$ 21,000
5800	State program revenues	743,083	1,315	3,940,069
5900	Federal program revenues			
5020	Total revenues	<u>743,083</u>	<u>1,315</u>	<u>3,961,069</u>
	Expenditures			
	Current:			
0011	Instruction	699,351	1,210	3,413,349
0012	Instruction resources and media services		105	76,431
0013	Curriculum and instructional staff development			52,093
0021	Instructional leadership			
0023	School leadership	9,270		139,824
0031	Guidance, counseling and evaluation services			40,048
0032	Social work services			148
0033	Health services			18,316
0034	Student transportation			
0035	Food service			44,936
0036	Extracurricular activities			
0041	General administration	34,462		64,604
0051	Facilities maintenance and operations			30,893
0052	Security and monitoring services			80,427
0061	Community services			
6030	Total Expenditures	<u>743,083</u>	<u>1,315</u>	<u>3,961,069</u>
1100	Excess (deficiency) of revenues over expenditures			
	Other Financing Sources (Uses)			
8949	Other uses			
7080	Total Other Financing Sources (Uses)			
1200	Net change in fund balances			
0100	Fund balance - Beginning			
3000	Fund balance - Ending	<u>\$</u>	<u>\$</u>	<u>\$</u>

461	480	495	497	498	
Campus Activity Funds	PISD Ed Foundation Grants	Internet Crimes Against Children	Measurable Outcomes	CASE Partnership	Total - Other Governmental Funds
\$ 2,917,538	\$ 179,298	\$ 24,423	\$	\$ 194,902	\$ 8,533,452
				316,575	8,839,918
<u>2,917,538</u>	<u>179,298</u>	<u>24,423</u>	<u></u>	<u>511,477</u>	<u>90,540,480</u>
1,435,852	179,298			463,697	62,040,812
42,906				3,317	518,592
10,265					4,069,473
1,682					1,253,024
594,828				44,425	1,212,156
23					6,815,791
					148
					130,460
					868,937
					27,708,807
813,785					813,785
					153,116
7,966				38	178,131
1,388		24,423			554,933
<u>2,908,695</u>	<u>179,298</u>	<u>24,423</u>	<u></u>	<u>511,477</u>	<u>106,603,501</u>
8,843					1,310,349
(14,887)					(14,887)
(14,887)					(14,887)
(6,044)					1,295,462
<u>2,018,708</u>					<u>6,469,257</u>
<u>\$ 2,012,664</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ 7,764,719</u>

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PASADENA INDEPENDENT SCHOOL DISTRICT

Exhibit H-3

COMBINING STATEMENTS OF NET ASSETS

INTERNAL SERVICE FUNDS

For the Year Ended August 31, 2010

<u>Data Control Codes</u>		<u>753 Employee Health Insurance</u>	<u>770 Worker's Compensation Fund</u>	<u>Total</u>
	Assets			
	Current assets:			
1110	Cash and cash equivalents	\$ 5,431,703	\$ 4,548,003	\$ 9,979,706
1410	Other current assets		53,318	53,318
	Total Current Assets	<u>5,431,703</u>	<u>4,601,321</u>	<u>10,033,024</u>
	Liabilities			
	Current Liabilities:			
2110	Accounts payable	\$ 44,450	\$	44,450
2200	Accrued expenses	2,326,551		\$ 2,326,551
	Total current liabilities	<u>2,371,001</u>		<u>2,371,001</u>
	Non-current liabilities:			
2590	Claims and judgments		4,110,049	4,110,049
	Total non-current liabilities		<u>4,110,049</u>	<u>4,110,049</u>
2000	Total Liabilities	<u>2,371,001</u>	<u>4,110,049</u>	<u>6,481,050</u>
	Net Assets			
3900	Unrestricted net assets	3,060,702	491,272	3,551,974
3000	Total Net Assets	<u>\$ 3,060,702</u>	<u>\$ 491,272</u>	<u>\$ 3,551,974</u>

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, 2010

<u>Data Control Codes</u>	<u>753 Employee Health Insurance</u>	<u>770 Worker's Compensation Fund</u>	<u>Total</u>	
Operating Revenues				
5745	Miscellaneous revenue from local sources	\$ 213,177	\$ 1,713	\$ 214,890
5754	Quasi-external interfund transactions	32,340,305	1,800,000	34,140,305
5020	Total operating revenues	<u>32,553,482</u>	<u>1,801,713</u>	<u>34,355,195</u>
Operating Expenses				
6100	Payroll costs		1,130,324	1,130,324
6400	Claims expense and other operating expenses	33,648,069		33,648,069
6030	Total Operating Expenses	<u>33,648,069</u>	<u>1,130,324</u>	<u>34,778,393</u>
1200	Operating Income (Loss)	(1,094,587)	671,389	(423,198)
Non-Operating Revenues (Expenses)				
7020	Earnings - temporary deposits and investments	10,392	4,770	15,162
	Total Nonoperating Revenues	<u>10,392</u>	<u>4,770</u>	<u>15,162</u>
1200	Change in Net Assets	(1,084,195)	676,159	(408,036)
Net Assets				
0100	Net Assets - Beginning	<u>4,144,897</u>	<u>(184,887)</u>	<u>3,960,010</u>
3300	Net Assets - Ending	<u>\$ 3,060,702</u>	<u>\$ 491,272</u>	<u>\$ 3,551,974</u>

PASADENA INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
For the Year Ended August 31, 2010

Exhibit H-5

	753	770	
	Employee Health Insurance	Worker's Compensation Fund	Total
Increase (Decrease) in Cash and Cash Equivalents			
Cash Flows from Operating Activities:			
Cash received from customers	\$ 213,177	\$ 1,713	\$ 214,890
Cash receipts from quasi-external operating activities with other funds	\$ 32,361,073	\$ 1,799,707	\$34,160,780
Cash payments to suppliers for goods and services	(33,603,619)	(1,130,324)	(34,733,943)
Net Cash Provided by (Used for) Operating Activities	<u>(1,029,369)</u>	<u>671,096</u>	<u>(358,273)</u>
Cash Flows from Non-Capital Financing Activities:			
Changes in claims and judgements	(37,215)	(74,388)	(111,603)
Net Cash Provided by (Used for) Non-Capital Financing Activities	<u>(37,215)</u>	<u>(74,388)</u>	<u>(111,603)</u>
Cash Flows from Investing Activities:			
Interest on investments	10,392	4,770	15,162
Net Cash Provided by Investing Activities	<u>10,392</u>	<u>4,770</u>	<u>15,162</u>
Net Increase in Cash and Cash Equivalents	(1,056,192)	601,478	(454,714)
Cash and Cash Equivalents at Beginning of Year	6,487,895	3,946,525	10,434,420
Cash and Cash Equivalents at End of Year	<u>\$ 5,431,703</u>	<u>\$ 4,548,003</u>	<u>\$ 9,979,706</u>
Reconciliation to Balance Sheet:			
Cash and Cash Equivalents Per Cash Flow	<u>\$ 5,431,703</u>	<u>\$ 4,548,003</u>	<u>\$ 9,979,706</u>
Cash and Cash Equivalents per Balance Sheet	<u>\$ 5,431,703</u>	<u>\$ 4,548,003</u>	<u>\$ 9,979,706</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:			
Operating Income (Loss)	\$ (1,094,587)	\$ 671,389	\$ (423,198)
Change in Assets and Liabilities:			
Decrease (increase) in Receivables	20,766	725	21,491
Decrease (increase) in Other Assets		(1,018)	(1,018)
Increase (decrease) in Accounts Payable	44,452		44,452
Net Cash Provided by (Used for) Operating Activities	<u>\$ (1,029,369)</u>	<u>\$ 671,096</u>	<u>\$ (358,273)</u>

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Required TEA Schedules

PASADENA INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF DELINQUENT TAXES RECEIVABLE

For the Year Ended August 31, 2010

Last Ten Fiscal Years	1		2	3	10
	Tax Rates		Debt Service	Net Assessed/Appraised Value For School Tax Purposes	Beginning Balance 8/31/09
	Maintenance				
2001 and prior	Various		Various	Various	\$ 2,303,464
2002	1.534900		0.130000	5,956,532,344	788,392
2003	1.515000		0.017250	6,421,236,921	791,602
2004	1.515000		0.260000	6,940,927,017	1,014,841
2005	1.515000		0.260000	7,483,889,115	1,118,698
2006	1.545000		0.260000	7,604,110,083	1,263,792
2007	1.410000		0.280000	8,483,545,585	1,444,399
2008	1.070000		0.280000	8,526,003,321	1,733,913
2009	1.070000		0.280000	10,387,222,963	3,746,059
2010	1.070000		0.280000	10,169,692,944	
1000 Totals					\$ 14,205,160

Exhibit J-1

20	31	32	40	50
Current Year's Total Levy	Maintenance Total Collections	Debt Service Total Collections	Entire Year's Adjustments	Ending Balance 8/31/10
\$	\$ 240,376	\$ (64,903)	\$ (245,446)	\$ 1,882,545
	22,711	1,924	(34,689)	729,068
	34,096	388	(19,408)	737,710
	51,437	8,828	(18,518)	936,058
	60,362	10,359	25,890	1,073,867
	120,967	20,357	(39,018)	1,083,450
	236,447	46,954	(21,431)	1,139,567
	381,007	99,703	(53,115)	1,200,088
	902,410	236,145	(761,579)	1,845,925
<u>137,290,855</u>	<u>103,751,667</u>	<u>27,149,969</u>	<u>(2,476,609)</u>	<u>3,912,610</u>
<u>\$ 137,290,855</u>	<u>\$ 105,801,480</u>	<u>\$ 27,509,724</u>	<u>\$ (3,643,923)</u>	<u>14,540,888</u>
				<u>8,587,235</u>
				<u>\$ 23,128,123</u>
				<u>Total taxes receivable per Governmental Fund Balance Sheet</u>

PASADENA INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES FOR COMPUTATION OF
INDIRECT COSTS FOR 2011-2012
GENERAL AND SPECIAL REVENUE FUNDS
For the Year Ended August 31, 2010

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		\$340,906	\$ 506,524	\$ 6,659,864	\$ -	\$ -	\$ 7,507,294
6149	Fringe Benefits (Unused Leave for Separating Employees in Function 41 and Related 53)				1,860			1,860
6149	Fringe Benefits (Unused Leave for Separating Employees in all Functions except Function 41 and Related 53)				225,833			225,833
6211	Legal Services		1,136,522	464,292		\$ 5,154		1,605,968
6212	Audit Services				92,500			92,500
621X	Other Prof. Services			43,225	223,977			267,202
6230	Education Service Centers				1,275			1,275
6240	Contr. Maint. and Repair					482,326		482,326
6260	Rentals	1,575		1974	221,947			225,496
6290	Miscellaneous Contr.		99,315		186,060			285,375
6320	Textbooks and Reading			891	55,483			56,374
63XX	Other Supplies Materials	97	31,904	18,885	767,190			818,076
6410	Travel, Subsistence, Stipends	10,356	2,637	4,446	78,224			95,663
6420	Ins. and Bonding Costs				223,534			223,534
6430	Election Costs	12,416						12,416
6490	Miscellaneous Operating	14,500	3,381	38,936	188,464			245,281
6600	Capital Outlay						413,449	413,449
6000	TOTAL	\$ 38,944	\$ 1,614,665	\$ 1,079,173	\$ 8,926,211	\$ 487,480	\$ 413,449	\$ 12,559,922

Total expenditures/expenses for General and Special Revenue Funds
 (plus Food Service Enterprise Fund if present)

9 \$461,387,828

Less: Deductions of Unallowable Costs

Fiscal Year

Total Capital Outlay (6600)	10	\$9,469,180
Total Debt & Lease (6500)	11	308,231
Plant Maintenance (Function 51, 6100-6400)	12	46,193,195
Food (Function 35, 6341 and 6499)	13	12,516,408
Stipends (6413)	14	
Column 4 (above) - Total Indirect Cost		8,926,211
Subtotal:		\$77,413,225
Net Allowed Direct Cost		<u>383,974,603</u>

Cumulative

Total Cost of Buildings before Depreciation (1520)	15	\$785,352,127
Historical Cost of Buildings over 50 years old	16	9,606,609
Amount of Federal Money in building Cost (Net of #16)	17	
Total Cost of Furniture & Equipment before Depreciation (1530&1540)	18	22,845,798
Historical Cost of Furniture & Equipment over 16 years old	19	582,210
Amount of Federal Money in Furniture & Equipment (Net of #19)	20	115,283

(8) Note A - \$2,089,518 in Function 53 expenditures are included in this report on administrative costs.
\$1,136,522 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, 2010

Exhibit J-3

Data Control Code	Explanation	Amount
1.	Total General Fund Balance 8/31/10 (Exhibit C-1 object 3000 for the General Fund only)	\$ 87,266,062
2.	Total Reserved Fund Balance 8/31/10 (from Exhibit C-1 - total of object 3400s for the General Fund only)	10,037,212
3.	Total Designated Fund Balance (from Exhibit C-1 - total of object 3500s for the General Fund only)	13,800,000
4.	Estimated amount needed to cover fall cash flow deficits in General Fund (net of borrowed funds and funds representing deferred revenues)	9,200,000
5.	Estimate of two month's average cash disbursements during fiscal year	61,000,000
6.	Estimate of delayed payments from state sources (58xx) including August payment delays	600,000
7.	Estimate of underpayment from state sources equal to variance between Legislative Payment Estimate (LPE) and District Planning Estimate (DPE) or District's calculated earned state aid amount	
8.	Estimate of delayed payments from federal sources (59xx)	5,000,000
9.	Estimate of expenditures to be reimbursed to General Fund from Capital Projects Fund (uses of General Fund cash after bond referendum and prior to issuance of bonds)	
10.	Adjustment to meet Board Policy	
11.	Optimum Fund Balance and Cash Flow (2+3+4+5+6+7+8+9+10)	<u>99,637,212</u>
12.	Excess (Deficit) Undesignated Unreserved General Fund Fund Balance (1-11)	<u><u>\$ (12,371,150)</u></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, 2010

Data Control Codes	Budget			Variance with Final Budget Favorable	
	Original	Final	Actual		
Revenues					
5700	Local, Intermediate, and Out-of-State	\$ 6,697,058	\$ 6,697,058	\$ 5,196,291	\$ (1,500,767)
5800	State Program Revenues	722,994	722,994	572,401	(150,593)
5900	Federal Program Revenues	20,128,028	20,378,028	23,179,040	2,801,012
5020	Total Revenues	<u>27,548,080</u>	<u>27,798,080</u>	<u>28,947,732</u>	<u>1,149,652</u>
Expenditures					
Current:					
0035	Food Services	27,548,080	27,798,080	27,645,751	152,329
6030	Total Expenditures	<u>27,548,080</u>	<u>27,798,080</u>	<u>27,645,751</u>	<u>152,329</u>
1200	Increase (Decrease) in Fund Balance			1,301,981	1,301,981
0100	Fund Balance - Beginning	<u>4,357,158</u>	<u>4,357,158</u>	<u>4,357,158</u>	
3000	Fund Balance - Ending	<u>\$ 4,357,158</u>	<u>\$ 4,357,158</u>	<u>\$ 5,659,139</u>	<u>\$ 1,301,981</u>

See Notes to the Financial Statements.

PASADENA INDEPENDENT SCHOOL DISTRICT

Exhibit J-5

BUDGETARY COMPARISON SCHEDULE

DEBT SERVICE FUND

For the Year Ended August 31, 2010

Data Control Codes	Budget			Variance with Final Budget Favorable	
	Original	Final	Actual		
Revenues					
5700	Local, Intermediate, and Out-of-State	\$ 28,500,000	\$ 28,500,000	\$ 31,534,785	\$ 3,034,785
5800	State Program Revenues	15,400,000	15,400,000	13,166,542	(2,233,458)
5020	Total Revenues	<u>43,900,000</u>	<u>43,900,000</u>	<u>44,701,327</u>	<u>801,327</u>
Expenditures					
Debt Service:					
0071	Principal on long-term debt	20,500,000	20,500,000	17,795,000	2,705,000
0072	Interest on long-term debt	23,000,000	22,700,000	16,549,983	6,150,017
0073	Bond issuance costs and fees	400,000	1,250,000	1,201,050	48,950
6030	Total Expenditures	<u>43,900,000</u>	<u>44,450,000</u>	<u>35,546,033</u>	<u>8,903,967</u>
1100	Excess (Deficiency) Revenues Over Expenditures		(550,000)	9,155,294	9,705,294
Other Financing Sources (Uses)					
Capital-related debt issued (regular					
7911	bonds)		56,400,000	56,385,000	(15,000)
7916	Premium or discount on issuance of bonds		5,000,000	4,999,667	(333)
8940	Payment to bond refunding escrow agent		(60,850,000)	(60,834,274)	15,726
1200	Increase (Decrease) in Fund Balance			9,705,687	9,705,687
0100	Fund Balance - Beginning	<u>35,129,164</u>	<u>35,129,164</u>	<u>35,129,164</u>	
3000	Fund Balance - Ending	<u>\$ 35,129,164</u>	<u>\$ 35,129,164</u>	<u>\$ 44,834,851</u>	<u>\$ 9,705,687</u>

See Notes to the Financial Statements.

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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 (the "District") as of and for the year ended August 31, 2010, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 25, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion 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 would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over 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 as 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, the audit committee, management, others within the organization and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Nell Larson, AC". The signature is written in a cursive, flowing style.

Texas City, Texas
January 25, 2011

**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 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, 2010. 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 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 compliance with those requirements.

In our opinion, the 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 end August 31, 2010.

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 controls 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 a 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.

Closing

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


Texas City, Texas
January 25, 2011

PASADENA INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended August 31, 2010

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:

Name of Federal Program or Cluster	CFDA Numbers
---	---------------------

U.S. Department of Education

Title I, Part A Cluster	
Title I, Part A - Improving Basic Programs and School Improvement Program	84.010A
Title I, Part A - Improving Basic Programs (ARRA)	84.389
Special Education Cluster	
IDEA, Part B - Formula	84.027
IDEA, Part B - Preschool	84.173
IDEA, Part B - High Cost Risk Pool	84.027
IDEA, Part B - Formula (ARRA)	84.391
Title II, Part A – Teacher and Principal Training and Recruiting	84.367A
Title II, Part D Cluster	
Enhancing Education through Technology	84.318X
Enhancing Education through Technology (ARRA)	84.386A
Title XIV – State Fiscal Stabilization Funds (ARRA)	84.394A

1. Dollar Threshold Considered Between Type A and Type B Federal Programs	\$2,740,295
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, 2010

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, 2010

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
U.S. Department of Health and Human Services				
199	Medicaid	93.778	101-917	\$ 159,470
498	CASE	93.575	101-917	316,575
Total U.S Department of Health and Human Services				476,045
U.S Department of Education				
Direct Programs:				
274	GEAR UP Success	84.334A	101-917	1,124,899
289	Teaching American History	84.215X	101-917	284,532
288	Internet Crimes Against Children	16.543	101-917	338,645
Total Direct Programs				1,748,076
Passed Through State Department of Education:				
204	Title IV, Part A - SDFSC	84.186A	10691001101917	223,834
211	Title I, Part A - Improving Basic Programs*	84.010A	10610101101917	14,426,415
211	Title I, Part A - Improving Basic Programs*	84.010A	11610101101917	944,383
212	ESEA, Title I, Part C - Education Of Migratory Children	84.011A	10615001101917	191,399
212	ESEA, Title I, Part C - Education Of Migratory Children	84.011A	11615001101917	27,811
224	IDEA - Part B, Formula**	84.027	106600011019176000	7,050,689
224	IDEA - Part B, Formula**	84.027	116600011019176600	510,402
225	IDEA - Part B, Preschool**	84.173	106610011019176610	157,955
225	IDEA - Part B, Preschool**	84.173	116610011019176610	7,899
244	Carl Perkins-Basic Grant	84.048A	10420006101917	664,713
244	Carl Perkins-Basic Grant	84.048A	11420006101917	30,242
255	Title II, Part A - TPTR	84.367A	10694501101917	2,698,743
255	Title II, Part A - TPTR	84.367A	11694501101917	204,784
262	Title II, Part D - Enhancing Education through Technology	84.318X	10630001101917	188,235
263	Title III, Part A English Language Acquisition and Language Enhancement	84.365A	10671001101917	1,611,122
263	Title III, Part A English Language Acquisition and Language Enhancement	84.365A	11671001101917	72,852
266	Title XIV State Fiscal Stabilization Funds Grant (ARRA)	84.394A	10557001101917	23,380,185
279	Title II, Part D Technology (ARRA)	84.386A	10553001101917	203,052
	Target Teach in Texas (T3) Collaborative Grant (ARRA)	84.386A	10553002710037	758,942
283	IDEA - B Formula (ARRA)**	84.391	10554001101917	5,706,725
284	IDEA - B Preschool (ARRA)**	84.392A	10555001101917	69,745
285	Title I, Part A - Improving Basic Programs (ARRA)*	84.389	10551001101917	6,034,696
289	Summer School LEP-RD 16	84.369A	69551002	17,104
287	Homeless Education Disaster	84.383A	S383A090021	32,347
Total Passed through State Department of Education				65,214,274
Passed through the Harris Department of Education:				
265	Title IV, Part B 21st Century Community Learning Centers	84.287	101-917	514,088
265	Title IV, Part B 21st Century Community Learning Centers	84.287	101-917	25,765
Total Passed through the Harris Department of Education				539,853
Total U.S. Department of Education				67,502,203
U.S. Department of Agriculture				
Passed Through the Texas Department of Agriculture:				
Non Cash assistance (commodities):				
240	National School Lunch Program**	10.555	101-917	1,692,813
240	CACFP	10.558	101-917	16,530
240	Equipment Assistance Grant (ARRA)	10.579	101-917	244,168
Total Passed Through the Texas Department of Agriculture				1,953,511

PASADENA INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended August 31, 2009

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
Passed Through State Department of Education:				
	<i>Cash Assistance</i>			
240	<i>School Breakfast Program**</i>	10.553	71400901	\$ 4,687,444
240	<i>National School Lunch Program**</i>	10.555	71300901	<u>15,958,025</u>
	Total Passed Through State Department of Education:			<u>20,645,469</u>
Passed Through Health and Human Services Commission				
242	<i>Summer Feeding**</i>	10.559	101-917	<u>580,060</u>
	Total Passed Through Health and Human Services Commission			<u>580,060</u>
Total U.S. Department of Agriculture				
U.S. Department of Homeland Security				
Passed through Texas department of Public Safety				
	<i>Public Assistance Grant - FEMA Aid</i>	97.036	101-917	<u>148,604</u>
	Total U.S. Department of Homeland Security			<u>148,604</u>
U.S. Department of Justice				
289	<i>Internet Crimes Against Children (ARRA)</i>	16.800	1018407	<u>37,267</u>
	Total U.S. Department of Justice			<u>37,267</u>
Total Expenditures of Federal Awards				<u><u>\$ 91,343,159</u></u>

- * 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 June 30, 2010. 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	\$ 91,343,159
SHARS	8,075,315
ROTC	203,343
Other Federal Revenue	981,786
Reconciled balance	<u>\$100,603,603</u>
Related Expenditures on Exhibit C-3	
General Fund	\$ 10,063,120
Special Revenue Funds	90,540,480
	<u>\$100,603,600</u>

Note 4 - General Fund Expenditures

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

E-RATE	\$	862,454
Title II, Part D ARRA		818
Texas Education Excellence Award		16,466
Basic Skill - High School Students		39,393
Other Grants		62,655
	\$	<u>981,786</u>

PASADENA INDEPENDENT SCHOOL DISTRICT		
<i>REQUIRED RESPONSES TO SELECTED SCHOOL FIRST INDICATORS</i>		
<i>SCHEDULE L-1</i>		
SF2	Were there any disclosures in the Annual Financial Report and/or other sources of information concerning default on bonded indebtedness obligations?	No
SF4	Did the district receive a clean audit? – Was there an unqualified opinion in the Annual Financial Report?	Yes
SF5	Did the Annual Financial Report disclose any instances of material weaknesses in internal controls?	No
SF9	Was there any disclosure in the Annual Financial Report of material noncompliance?	No
SF10	Total accumulated accretion on CABs included in government-wide financial statements at fiscal year-end.	\$0