

**PEARLAND
INDEPENDENT SCHOOL DISTRICT**

ANNUAL FINANCIAL REPORT

**FOR THE TEN MONTHS ENDED
JUNE 30, 2013**

**KENNEMER, MASTERS & LUNSFORD, LLC
CERTIFIED PUBLIC ACCOUNTANTS
8 WEST WAY COURT
LAKE JACKSON, TEXAS 77566**

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PEARLAND INDEPENDENT SCHOOL DISTRICT

*Annual Financial Report
For the Ten Months Ended June 30, 2013*

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PEARLAND INDEPENDENT SCHOOL DISTRICT

*Annual Financial Report
For the Year Ended June 30, 2013*

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INTRODUCTORY SECTION

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CERTIFICATE OF BOARD

Pearland Independent School District
Name of School District

Brazoria
County

020-908
Co.-Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above named school district were reviewed and (check one) ___ approved ___ disapproved for the ten months ended June 30, 2013, at a meeting of the board of trustees of such school district on the 12th day of November, 2013.

Signature of Board Secretary

Signature of Board President

If the Board of Trustees disapproved of the auditor's report, the reason(s) for disapproving it is (are) (attach list if necessary):

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FINANCIAL SECTION

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KENNEMER, MASTERS & LUNSFORD

CERTIFIED PUBLIC ACCOUNTANTS

Limited Liability Company

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Independent Auditor's Report

To the Board of Trustees
Pearland Independent School District
Pearland, Texas 77588

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Pearland Independent School District (the "District") as of and for the ten months ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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 Pearland Independent School District, as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the ten months then ended in accordance with accounting principles generally accepted in the United States of America.

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Partnering for CPA Practice Success

Emphasis of Matter

As described in Note 3 to the financial statements, in 2013, the District adopted new accounting guidance, GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 15 - 26 and 72 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and the required Texas Education Agency schedules, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The 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.

The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. 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 certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements, the required Texas Education Agency schedules, and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Board of Trustees
Pearland Independent School District
Pearland, Texas 77588
Page 3

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2013, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Kennemer, Masters & Kingford, LLC

Lake Jackson, Texas
October 31, 2013

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PEARLAND INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013

As management of the Pearland 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 ten months ended June 30, 2013. We encourage readers to consider the information presented here in conjunction with the District's financial statements, which follow this section.

During the year ended August 31, 2012, the District elected to change its fiscal year end from August 31st to June 30th. This resulted in the current year presentation of the ten months ended June 30, 2013 and the prior year presentation of the year ended August 31, 2012. Normal comparisons of the government-wide financial information must be performed with the knowledge of these changes. However, since these comparisons remain relevant in many instances, the prior period has been presented.

Financial Highlights

- The assets and deferred outflows of resources of the District exceeded its liabilities and deferred inflows of resources at the close of the most recent period by \$ 67,966,867 (*net position*). Of this amount, \$ 29,483,989 (*unrestricted net position*) may be used to meet the District's ongoing obligations.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$ 59,792,764. Approximately 37 percent of this total amount, \$ 22,099,193, is *available for spending* at the government's discretion (*unassigned fund balance*).
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$ 22,099,193, or 18 percent of the total general fund expenditures.

Overview of the Financial Statements

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

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

The *statement of net position* presents information on all of the District's assets and deferred outflows of resources, and liabilities and deferred inflows of resources, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information for all of the current year's revenues and expenses regardless of when cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the District's government-wide financial statements distinguish the functions of the District as being principally supported by taxes and intergovernmental revenues (*governmental activities*) as opposed to *business-type activities* that are intended to recover all or a significant portion of their costs through user fees and charges. The District has no *business-type activities* and no component units for which it is financially accountable. The government-wide financial statements can be found on pages 28 through 29 of this report.

PEARLAND INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2013

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 requirements. The fund financial statements provide more detailed information about the District's most significant funds – not the District as a whole.

- Some funds are required by State law and/or bond covenants.
- Other funds may be established by the Board to control and manage money for particular purposes or to show that it is properly using certain taxes or grants.

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, government 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 government'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 government's near-term financing decisions. Both the government 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 nineteen 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 and debt service fund, each of which are considered to be major funds. Data from the other eighteen governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report. The District adopts an annual appropriated budget for its general fund, food service special revenue fund, and debt service fund. A budgetary comparison schedule has been provided to demonstrate compliance with these budgets. The basic governmental fund financial statements can be found on pages 30 through 33 of this report.

Proprietary funds. *Proprietary funds* provide the same type of information as the government-wide financial statements, only in more detail. There are two proprietary fund types. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. As mentioned above in the government-wide definition, the District has no *business-type activities* or *enterprise funds*. The second type of proprietary fund is the *internal service fund*. Internal service funds are an accounting device used to accumulate and allocate costs internally among the various functions. The District uses the *internal service fund* to report activities for its self-funded workers' compensation insurance program. The basic proprietary fund financial statements can be found on pages 34 through 36 of this report.

PEARLAND INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013

- **Fiduciary funds.** *Fiduciary funds* are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the District's own programs. The District is the trustee, or *fiduciary*, for these funds and is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District's fiduciary activities are reported in a separate statement of fiduciary net position that can be found on page 37. These activities are excluded from the District's government-wide financial statements because the District cannot use these assets to finance its operations.

Notes to the financial statements. The notes provide additional information that is essential to a complete understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 39 through 70 of this report.

Other 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. Required supplementary information can be found on page 72 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information. Combining statements can be found on pages 74 through 81 of this report.

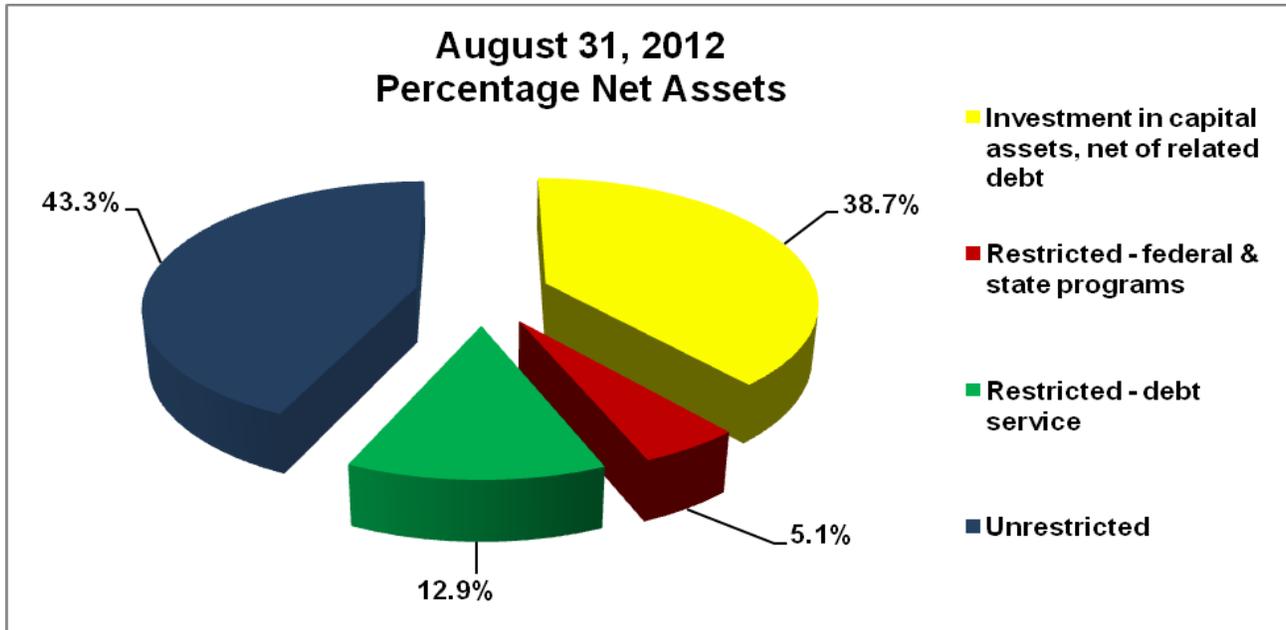
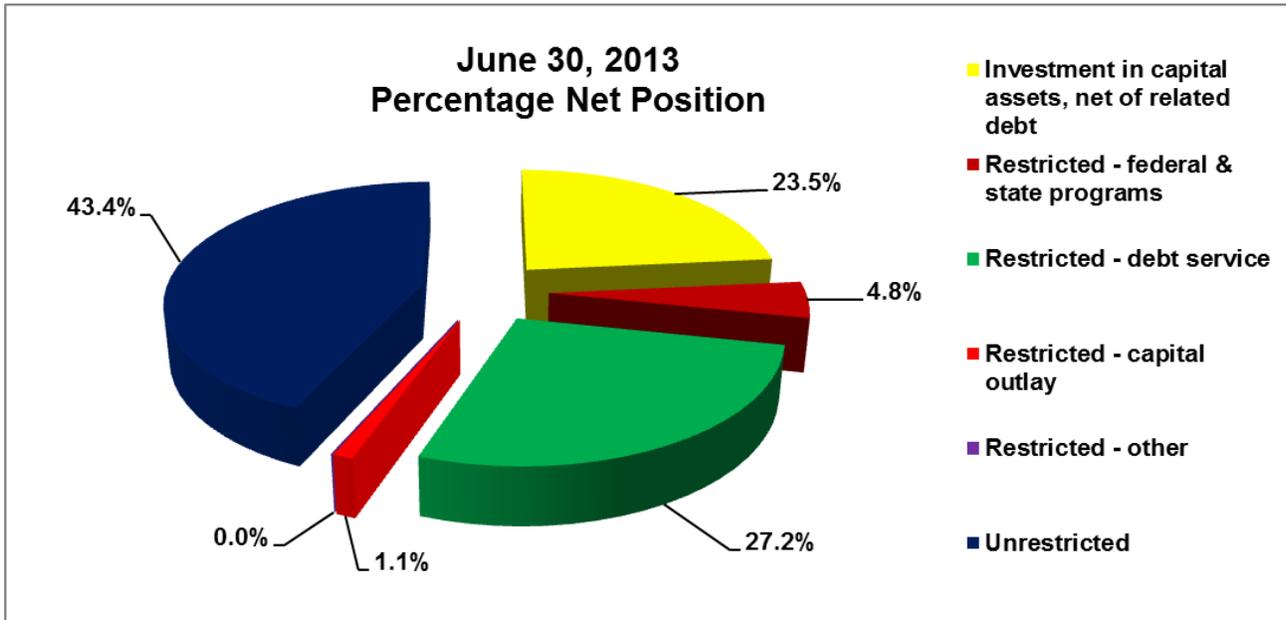
Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$ 67,966,867 as of June 30, 2013. Net position of the District's governmental activities increased from \$ 55,597,969 to \$ 67,966,867.

The District's Net Position

| | June 30, 2013 | (Restated) August 31, 2012 |
|---|----------------------|----------------------------------|
| Current and other assets | \$ 78,505,360 | \$ 67,604,317 |
| Capital assets | <u>320,937,743</u> | <u>324,369,943</u> |
| Total assets | <u>399,443,103</u> | <u>391,974,260</u> |
| Deferred outflows of resources | <u>12,106,202</u> | <u>-0-</u> |
| Long-term liabilities outstanding | 326,630,050 | 329,671,778 |
| Other liabilities | <u>16,952,388</u> | <u>6,704,513</u> |
| Total liabilities | <u>343,582,438</u> | <u>336,376,291</u> |
| Deferred inflows of resources | <u>-0-</u> | <u>-0-</u> |
| Net Position: | | |
| Invested in capital assets, net of related debt | 15,946,723 | 16,762,579 |
| Restricted | 22,536,155 | 17,954,836 |
| Unrestricted | <u>29,483,989</u> | <u>20,880,554</u> |
| Total net position | <u>\$ 67,966,867</u> | <u>\$ 55,597,969</u> |

PEARLAND INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013



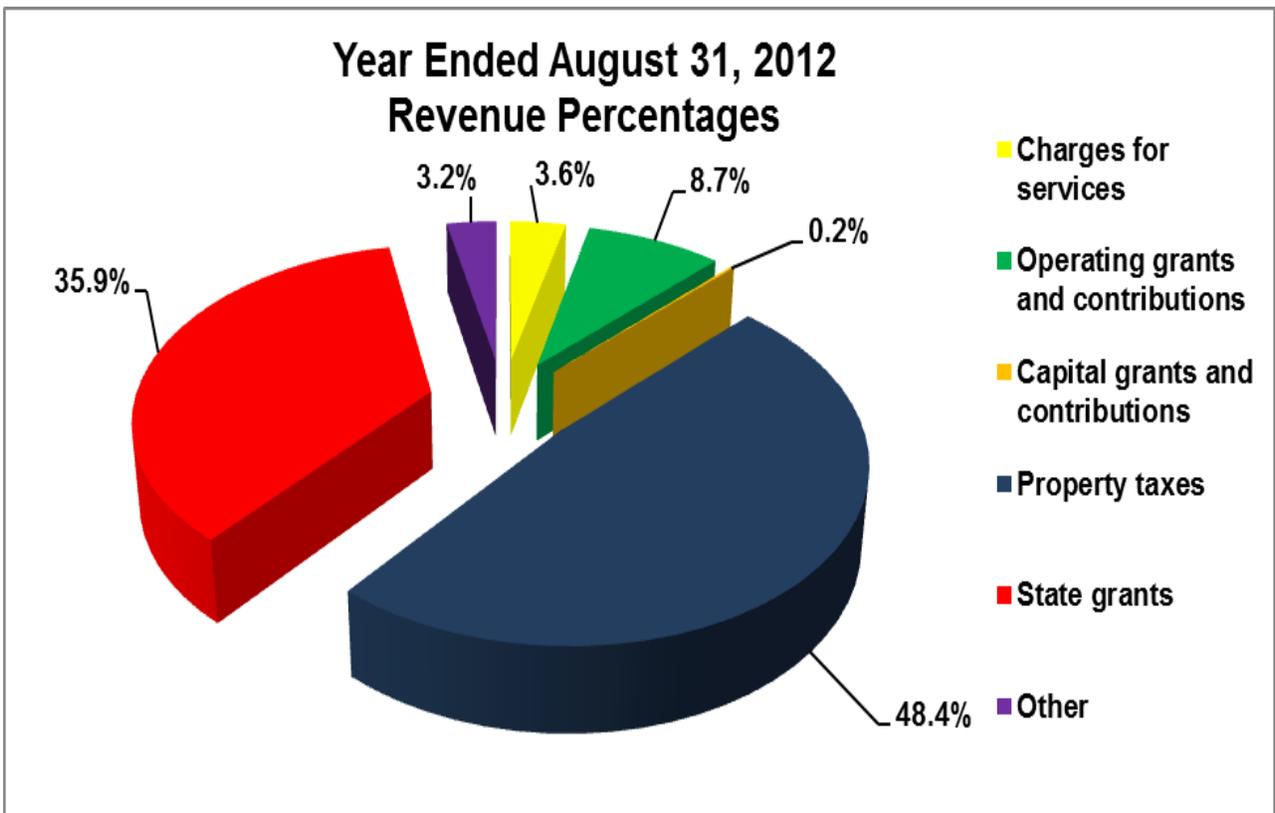
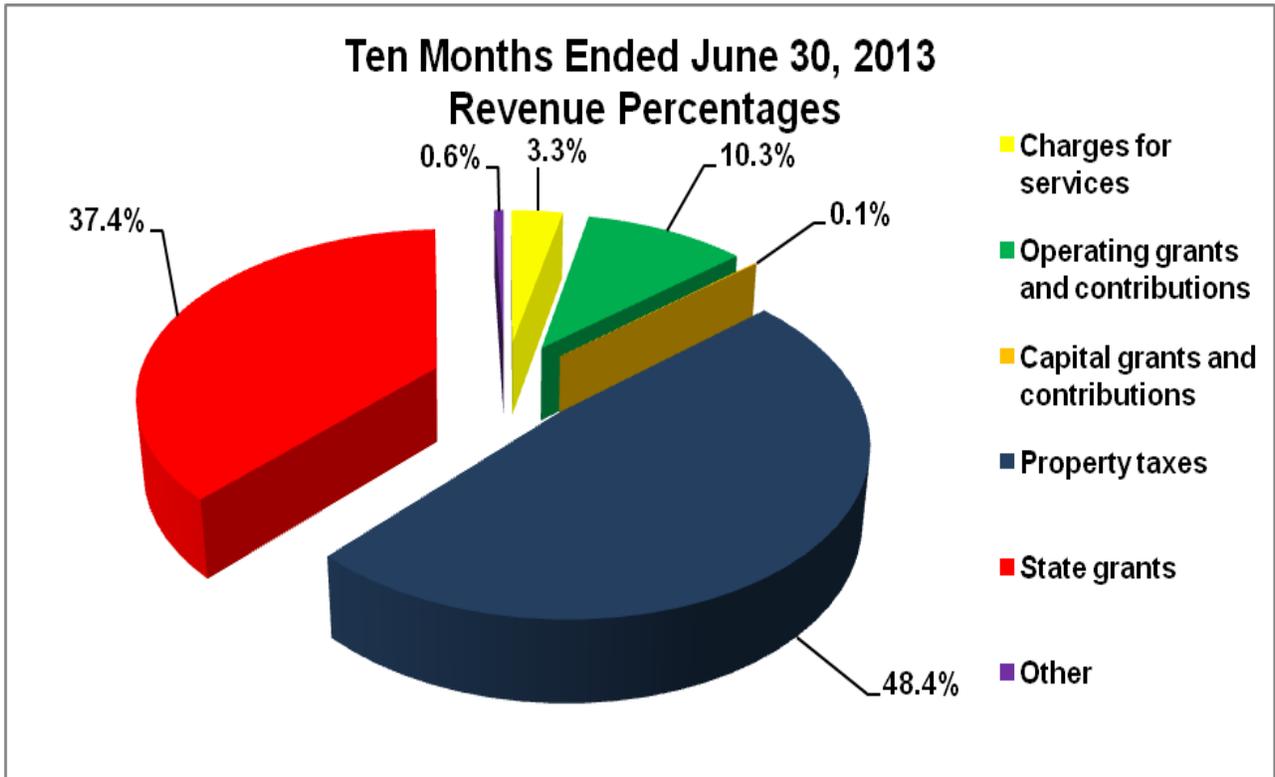
Investment in capital assets (e.g., land, buildings and improvements, furniture, equipment, and vehicles) less any related debt used to acquire those assets that is still outstanding is \$ 15,946,723. The District uses these capital assets to provide services to students; consequently, these assets are 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. An additional portion of the District's net position (approximately 33 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position*, \$ 29,483,989 may be used to meet the District's ongoing obligations. This surplus is not an indication that the District has significant resources available to meet financial obligations next year, but rather the result of having long-term commitments that are less than currently available resources.

PEARLAND INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013

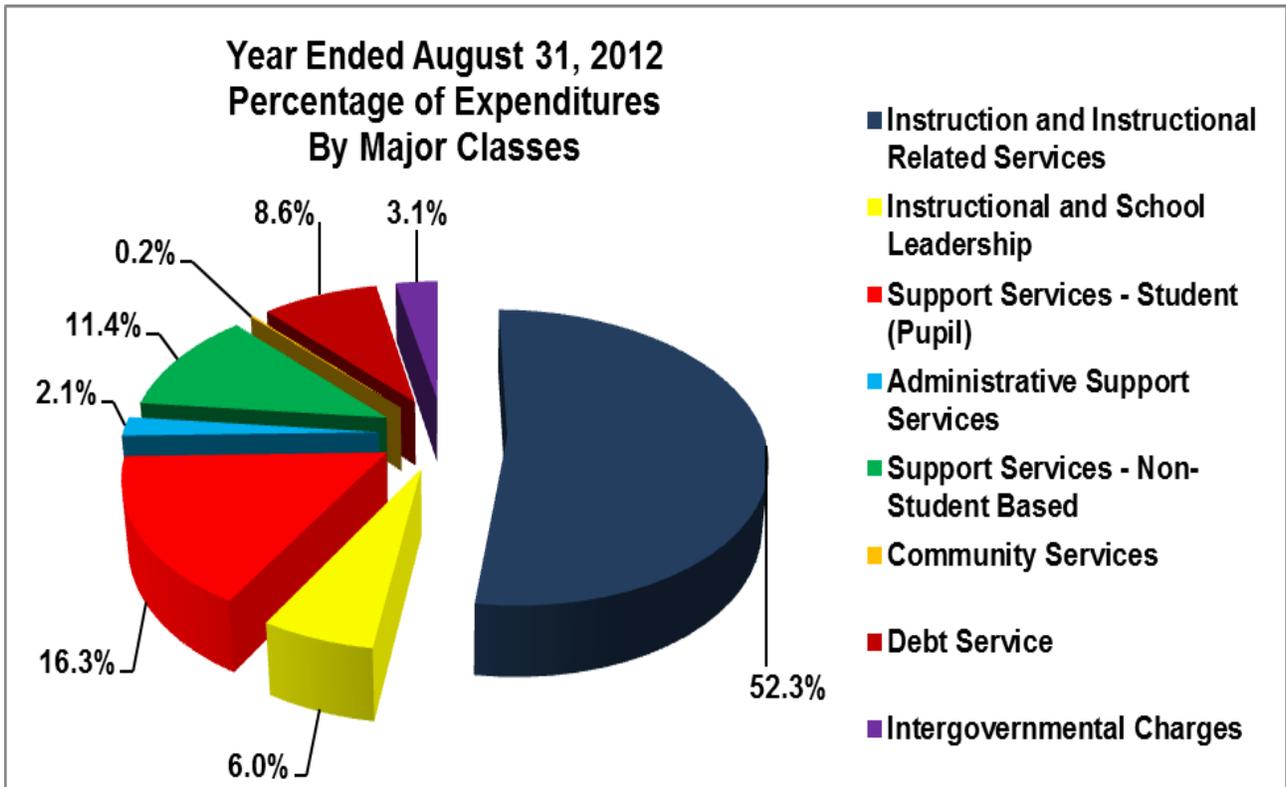
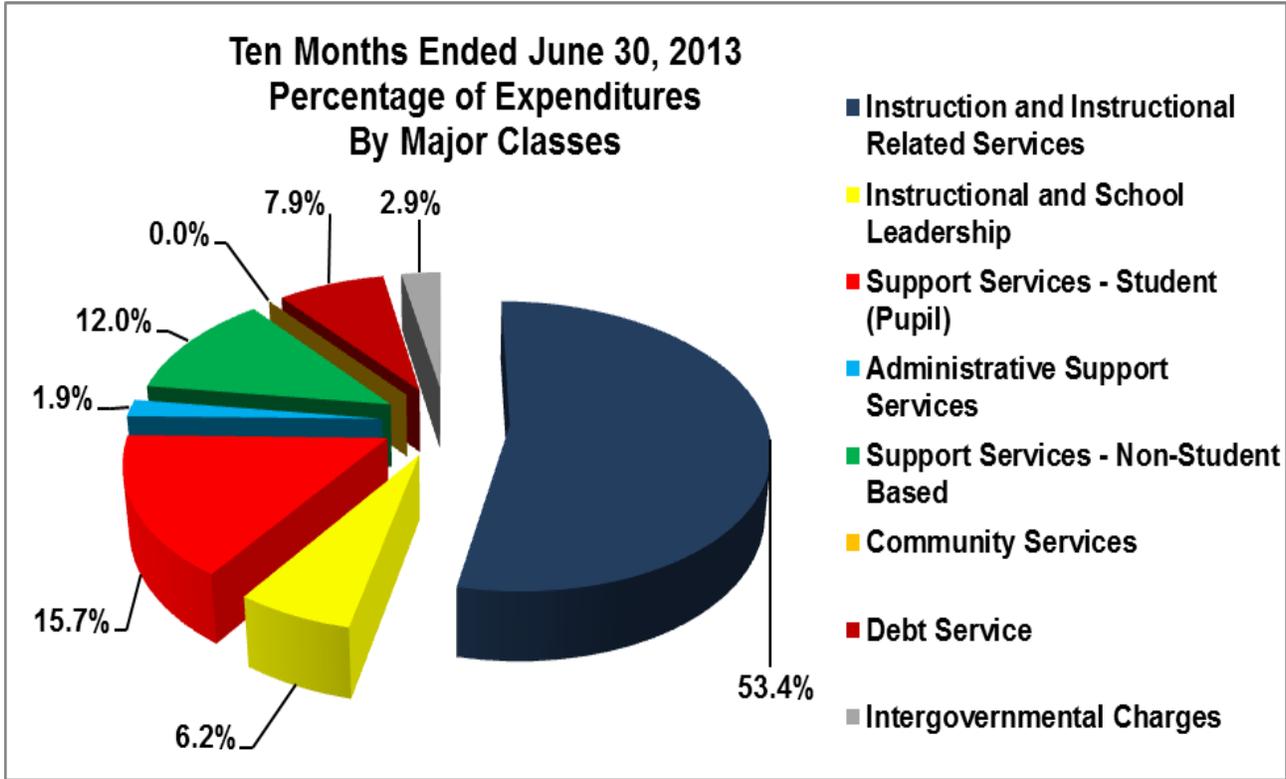
Governmental activities. The District's total net position increased by \$ 12,368,898. The District's total revenues increased by approximately 1.1%, while the District's total cost of all programs and services decreased by 6.9% (primarily resulting from the change in accounting period). The total cost of all *governmental activities* this year was \$ 152,452,471. The amount that our taxpayers paid for these activities through property taxes was \$ 79,736,215 or 52% of total cost. The amount of costs that were paid by those who directly benefited from the programs was \$ 5,383,430 or 4%. The costs that were paid by other governments and organizations that subsidized certain programs with grants and contributions or by State equalization funding were \$ 17,028,883 or 11% and \$ 61,729,034 or 41%, respectively.

Changes in the District's Net Position

| | Ten Months Ended 6-30-13 | (Restated) Year Ended 8-31-12 |
|--|--------------------------------|-------------------------------------|
| Revenues: | | |
| Program Revenues: | | |
| Charges for services | \$ 5,383,430 | \$ 5,796,825 |
| Operating grants & contributions | 16,906,922 | 14,151,769 |
| Capital grants and contributions | 121,961 | 344,944 |
| General Revenues: | | |
| Property taxes | 79,736,215 | 79,018,930 |
| State grants | 61,729,034 | 58,481,482 |
| Other | 943,807 | 5,256,434 |
| Total revenues | <u>164,821,369</u> | <u>163,050,384</u> |
| Expenses: | | |
| Instruction | 76,616,490 | 80,497,321 |
| Instructional resources & media services | 1,596,399 | 1,684,201 |
| Curriculum & staff development | 3,231,292 | 3,307,258 |
| Instructional leadership | 1,532,989 | 1,764,562 |
| School leadership | 7,873,688 | 8,083,392 |
| Guidance, counseling & evaluation services | 4,512,404 | 4,440,673 |
| Social work services | 282,937 | 318,057 |
| Health services | 1,129,578 | 1,186,173 |
| Student (pupil) transportation | 5,581,988 | 6,337,619 |
| Food services | 8,046,156 | 8,758,214 |
| Cocurricular/extracurricular activities | 4,324,185 | 5,523,241 |
| General administration | 2,860,991 | 3,445,382 |
| Plant maintenance and operations | 11,583,898 | 13,089,155 |
| Security and monitoring services | 1,389,484 | 1,265,546 |
| Data processing services | 5,354,227 | 4,239,364 |
| Community services | 32,860 | 241,622 |
| Debt service-interest and fees on long-term debt | 11,991,930 | 14,452,865 |
| Payments related to shared services arrangements | 4,082,692 | 4,608,101 |
| Payments to juvenile justice alternative education | 20,100 | 2,600 |
| Other intergovernmental charges | <u>408,183</u> | <u>558,860</u> |
| Total expenses | <u>152,452,471</u> | <u>163,804,206</u> |
| Increase (decrease) in net position before contributions | 12,368,898 | (753,822) |
| Beginning net position (restated) | <u>55,597,969</u> | <u>56,351,791</u> |
| Ending net position | <u>\$ 67,966,867</u> | <u>\$ 55,597,969</u> |



PEARLAND INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013



PEARLAND INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013

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, *unassigned fund balance* may serve as a useful measure of the District's net resources available for spending at the end of a fiscal year.

At the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$ 59,792,764, an increase of \$ 10,073,164. Approximately 37 percent of this total amount (\$ 22,099,193) constitutes *unassigned fund balance*. The remainder of fund balance is *non-spendable, restricted, committed, or assigned* to indicate that it is not available for new spending because it has already been committed 1) for inventory \$ 504,581, 2) for prepaid items \$ 1,551,474, 3) for grant funds \$ 3,042,092, 4) for capital acquisitions and contractual obligations \$ 1,160,839, 5) to pay debt service \$ 11,046,490, 6) restricted for other purposes \$ 95, 7) committed for construction \$ 7,500,000, and 8) assigned for other purposes \$ 12,888,000.

The general fund is the primary operating fund of the District. At the end of the current fiscal year, unassigned fund balance of the general fund was \$ 22,099,193, while the total fund balance was \$ 44,316,819. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to the total fund expenditures. Unassigned fund balance represents 18 percent of the total general fund expenditures, while total fund balance represents 37 percent of that same amount.

The fund balance of the District's general fund increased by \$ 4,349,121 or 11 percent during the current fiscal year compared to last year's total general fund balance of \$ 39,967,698. Revenues increased approximately 1.6 percent from prior year from \$ 124,049,334 to \$ 126,066,257. Expenditures decreased approximately 1.3 percent from prior year from \$ 119,529,402 to \$ 117,999,436.

The debt service fund has a total fund balance of \$ 11,046,490, all of which is restricted for the payment of debt service. The net increase in fund balance during the period in the debt service fund was \$ 6,482,485 from last year's balance of \$ 4,564,005. This increase is primarily due to the change in accounting period and timing of debt payments.

Proprietary funds. As mentioned earlier, the District's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position at June 30, 2013 amounted to \$ 319,924. The total decrease in net position was \$ 122,015 from last year's balance of \$ 441,939.

PEARLAND INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
 JUNE 30, 2013

General Fund Budgetary Highlights

During the ten months ended June 30, 2013, the District amended the budget between the various functions of the general fund. This resulted in an increase in appropriations (including transfers) of \$ 11,886,284, from \$ 128,732,209 to \$ 140,618,493. After initial approval of the budget, amendments were approved to appropriate \$ 275,000 to enhanced safety and security measures at all campuses, \$ 3.7 million to construct a satellite transportation facility, \$ 3.6 million to create a district-wide wireless network system for classroom instruction, \$ 1.3 million to replace and install new artificial turf at the multipurpose fields of two high schools and \$ 3 million to repurpose a traditional high school campus, which was closed due to budget cuts in previous years, into an alternative high school campus with a focus on college and career courses.

Actual revenues exceeded appropriations and transfers by \$ 4,349,121. Actual expenditures were \$18,901,357 below final budget amounts. Two major factors creating a positive variance in expenditures were the changing of the fiscal year from August 31st to June 30th thus eliminating approximately two months of operating expenditures and a large percentage of projects (appropriated by budget amendments) not being completed by the district's fiscal year end of June 30, 2013.

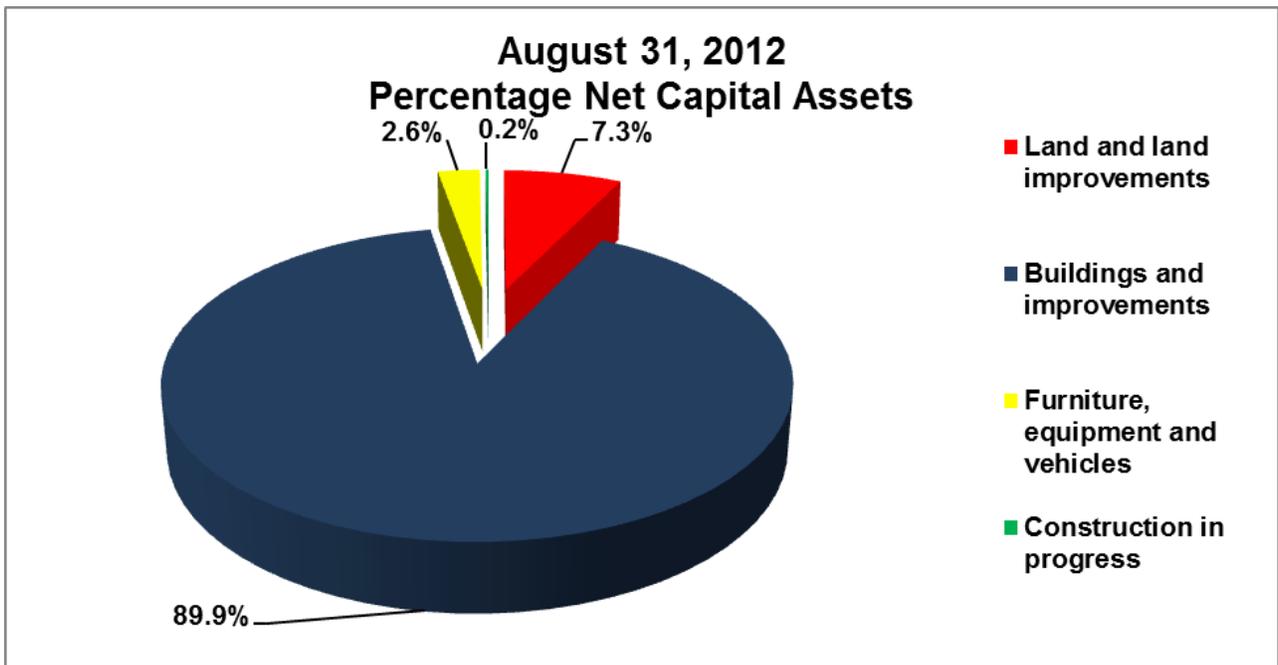
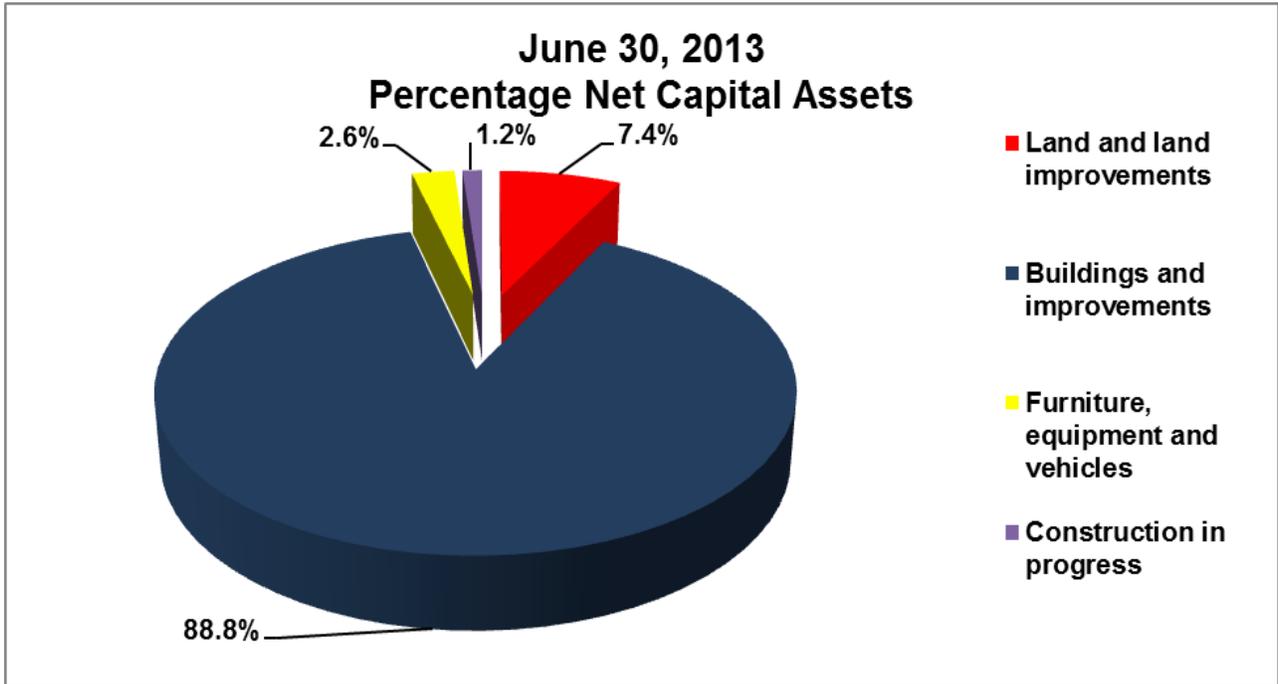
Capital Asset and Debt Administration

Capital Assets. The District's investment in capital assets for its governmental activities as of June 30, 2013 amounts to \$ 320,937,743 (net of accumulated depreciation). This investment in capital assets includes land, buildings and building improvements, furniture, equipment and vehicles, and construction in progress.

**District's Capital Assets
 (net of depreciation)**

| | June 30, 2013 | August 31, 2012 |
|-----------------------------------|-----------------------------|-----------------------------|
| | <u> </u> | <u> </u> |
| Land and land improvements | \$ 23,767,866 | \$ 23,767,866 |
| Buildings and improvements | 285,110,446 | 291,752,439 |
| Furniture, equipment and vehicles | 8,193,609 | 8,332,710 |
| Construction in progress | <u>3,865,822</u> | <u>516,928</u> |
| Total at historical cost | <u>\$ 320,937,743</u> | <u>\$ 324,369,943</u> |

PEARLAND INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013



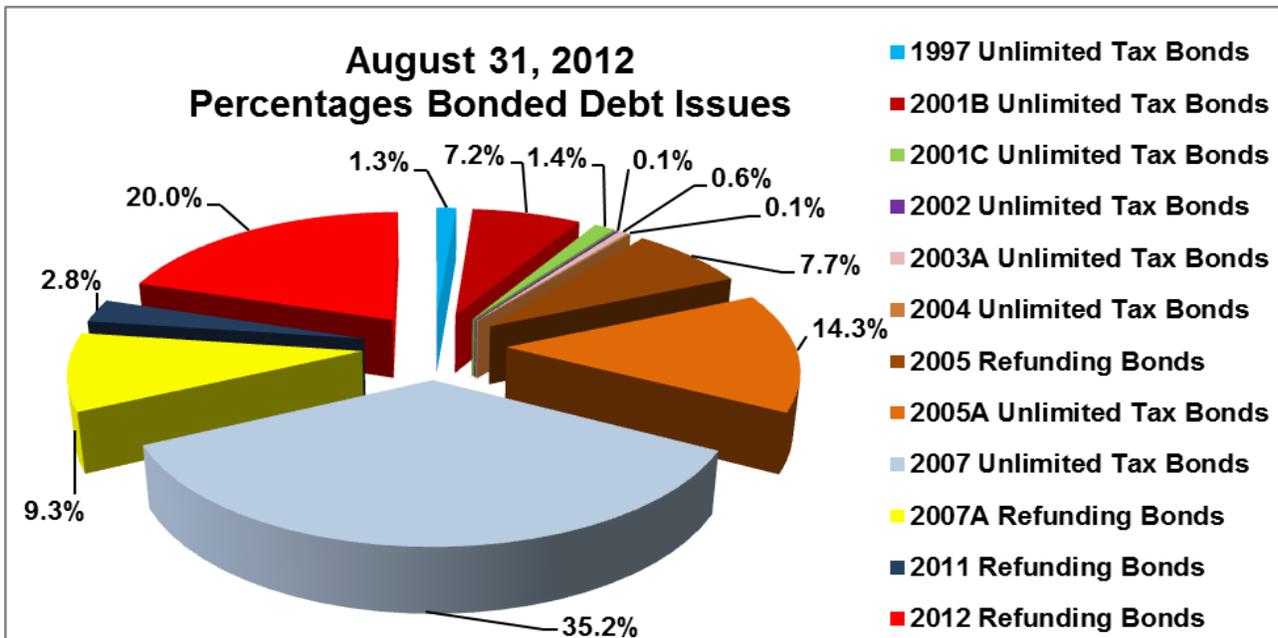
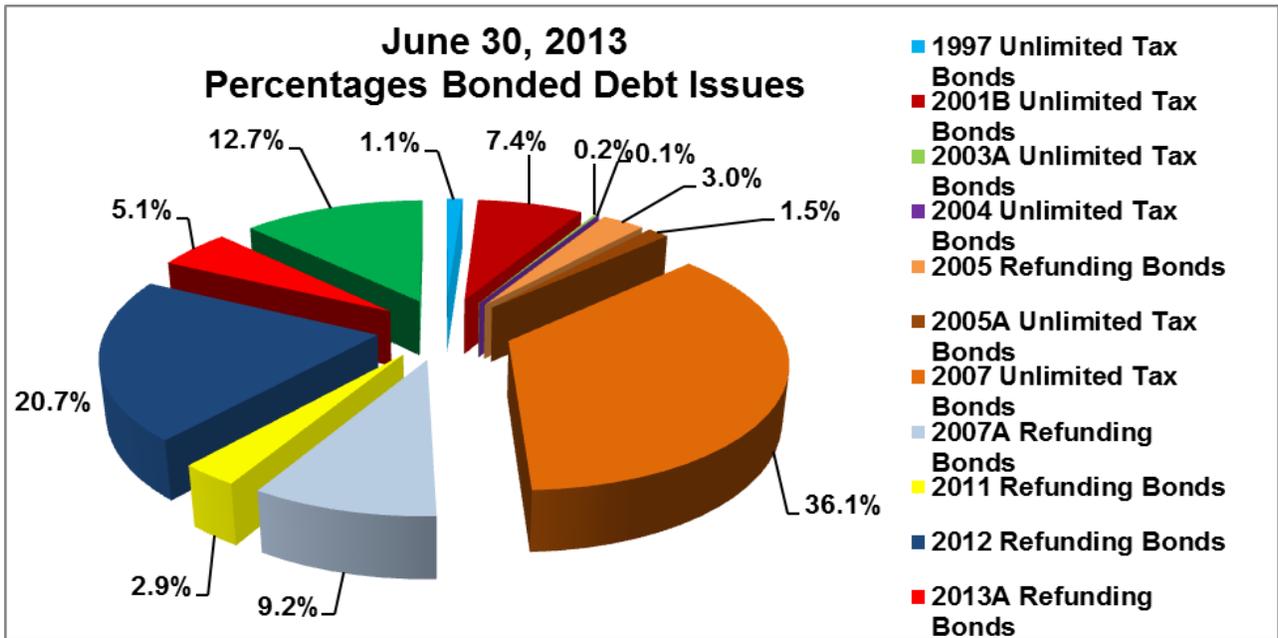
Additional information on the District's capital assets can be found in Note 7 on pages 60 through 61 of this report.

Long-term debt. At June 30, 2013, the District had total long-term debt outstanding of \$ 326,630,050, a decrease of \$ 3,041,728 from the previous year. Long-term debt is made up of the following:

PEARLAND INDEPENDENT SCHOOL DISTRICT
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 JUNE 30, 2013

District's Long-Term Debt

| | June 30, 2013 | August 31, 2012 |
|-------------------------------------|---------------------------|---------------------------|
| General obligation bonds | \$ 303,102,805 | \$ 314,085,695 |
| Components of Long-Term Debt: | | |
| Premium on general obligation bonds | 18,408,747 | 14,960,505 |
| Accrued Interest payable | <u>5,118,498</u> | <u>625,578</u> |
| Total long-term debt | <u>\$ 326,630,050</u> | <u>\$ 329,671,778</u> |



PEARLAND INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013

Additional information on the District's long-term debt can be found in Note 8 on pages 61 through 64 of this report.

Economic Factors and Next Year's Budgets and Rates

- Enrollment increased slightly over last year as the District approaches build-out within its boundaries. Growth in district's current enrollment of 19,586 students is expected to increase by 2.5% to 20,068 students next year. The latest demographic study conducted in June, 2010 projected the District's enrollment would increase from 18,274 students in 2010 to 24,497 students by the 2022-2023 school year.
- The District's taxable values will increase by a modest 2.4% next year. Absent any unforeseen events, the taxable values of the district are expected to hold stable.
- After remaining unchanged for the past four years, the property tax rate of \$ 1.4194 will be reduced to \$ 1.4157 per \$ 100 valuation for the 2013-2014 school year. The slight decrease in the tax rate affects the interest and sinking portion of the tax rate which provides tax revenues to pay the principal and interest on the district's outstanding bonds.

The Texas Legislature recently restored nearly \$ 4 billion of the \$ 5.4 billion in budget cuts to public education in 2011. Pearland ISD expects to gain an additional \$185 per student in the 2013-2014 school year and another \$ 90 per student in the 2014-2015 school year. Budgeted expenditures increased from \$ 136,900,793 in 2012-2013 to \$ 143,664,666 for the 2013-2014 school year which is an increase of 4.9%.

Requests for Information

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances as well as demonstrate accountability for funds the District receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Office of the Chief Financial Officer, Pearland Independent School District, 1928 N. Main, Pearland, Texas, 77581.

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PEARLAND INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2013

EXHIBIT A-1
Page 1 of 1

| <u>Data Control Codes</u> | | <u>Governmental Activities</u> |
|-----------------------------------|---|------------------------------------|
| | ASSETS: | |
| 1110 | Cash and cash equivalents | \$ 55,583,582 |
| 1220 | Taxes receivable - delinquent | 3,140,239 |
| 1230 | Allowance for uncollectible taxes (credit) | (1,292,991) |
| 1240 | Due from other governments | 18,876,791 |
| 1290 | Other receivables (net) | 1,141,684 |
| 1300 | Inventories | 504,581 |
| 1410 | Deferred expenses | 1,551,474 |
| | Capital Assets: | |
| 1510 | Land and land improvements | 23,767,866 |
| 1520 | Building, furniture and equipment, net | 285,110,446 |
| 1530 | Furniture, equipment and vehicles, net | 8,193,609 |
| 1580 | Construction in progress | <u>3,865,822</u> |
| 1000 | Total assets | <u>399,443,103</u> |
| | DEFERRED OUTFLOWS OF RESOURCES: | |
| 1700 | Deferred Outflows – bond refunding costs | <u>12,106,202</u> |
| | Total deferred outflows of resources | <u>12,106,202</u> |
| | LIABILITIES: | |
| 2110 | Accounts payable | 3,034,410 |
| 2150 | Payroll deductions and withholdings | 6,307 |
| 2165 | Accrued liabilities | 13,253,655 |
| 2200 | Accrued expenses | 150,039 |
| 2300 | Unearned revenue | 507,977 |
| | Noncurrent Liabilities: | |
| 2501 | Due within one year | 17,612,696 |
| 2502 | Due in more than one year | <u>309,017,354</u> |
| 2000 | Total liabilities | <u>343,582,438</u> |
| | DEFERRED INFLOWS OF RESOURCES: | |
| 2600 | Deferred inflows | <u> </u> |
| | Total deferred inflows of resources | <u>-0-</u> |
| | NET POSITION: | |
| 3200 | Invested in capital assets, net of related debt | 15,946,723 |
| | Restricted For: | |
| 3820 | Federal and state programs | 3,268,521 |
| 3850 | Debt service | 18,508,096 |
| 3860 | Capital projects | 759,443 |
| 3890 | Other | 95 |
| 3900 | Unrestricted | <u>29,483,989</u> |
| 3000 | Total net position | <u>\$ 67,966,867</u> |

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

PEARLAND INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
TEN MONTHS ENDED JUNE 30, 2013

EXHIBIT B-1
Page 1 of 1

| Data Control Codes | Functions/Programs | 1 Expenses | Program Revenues | | | Net (Expense) Revenue and Changes in Net Position |
|---------------------------------|--|-----------------------|---------------------------|---|---------------------------------------|---|
| | | | 3 Charges for Services | 4 Operating Grants and Contributions | 5 Capital Grants and Contributions | |
| GOVERNMENTAL ACTIVITIES: | | | | | | |
| 11 | Instruction | \$ 76,616,490 | \$ 236,203 | \$ 6,960,983 | \$ 68,735 | \$(69,350,569) |
| 12 | Instructional resources and media services | 1,596,399 | 23 | 46,845 | | (1,549,531) |
| 13 | Curriculum and staff development | 3,231,292 | 3 | 498,969 | | (2,732,320) |
| 21 | Instructional leadership | 1,532,989 | 11 | 230,021 | | (1,302,957) |
| 23 | School leadership | 7,873,688 | 60 | 415,623 | | (7,458,005) |
| 31 | Guidance, counseling, and evaluation services | 4,512,404 | 31 | 974,305 | | (3,538,068) |
| 32 | Social work services | 282,937 | 1 | 13,521 | | (269,415) |
| 33 | Health services | 1,129,578 | 12 | 50,080 | | (1,079,486) |
| 34 | Student transportation | 5,581,988 | 101 | 160,642 | 32,425 | (5,388,820) |
| 35 | Food service | 8,046,156 | 4,766,315 | 3,649,057 | | 369,216 |
| 36 | Extracurricular activities | 4,324,185 | 349,925 | 93,186 | 10,801 | (3,870,273) |
| 41 | General administration | 2,860,991 | 19 | 130,029 | | (2,730,943) |
| 51 | Plant maintenance and operations | 11,583,898 | 249 | 292,027 | 10,000 | (11,281,622) |
| 52 | Security and monitoring services | 1,389,484 | | 2,134 | | (1,387,350) |
| 53 | Data processing services | 5,354,227 | 4 | 261,392 | | (5,092,831) |
| 61 | Community services | 32,860 | 30,473 | 4,483 | | 2,096 |
| 72 | Interest on long-term debt | 11,405,911 | | 3,123,625 | | (8,282,286) |
| 73 | Bond issuance costs and fees | 586,019 | | | | (586,019) |
| 93 | Payments related to shared services arrangements | 4,082,692 | | | | (4,082,692) |
| 95 | Payments to juvenile justice alternative education programs | 20,100 | | | | (20,100) |
| 99 | Other intergovernmental charges | 408,183 | | | | (408,183) |
| TG | Total governmental activities | <u>\$ 152,452,471</u> | <u>\$ 5,383,430</u> | <u>\$ 16,906,922</u> | <u>\$ 121,961</u> | <u>(130,040,158)</u> |
| General Revenues: | | | | | | |
| Taxes: | | | | | | |
| MT | Property taxes, levied for general purposes | | | | | 58,423,733 |
| DT | Property taxes, levied for debt service | | | | | 21,312,482 |
| SF | State aid-formula grants | | | | | 61,729,034 |
| GC | Grants and contributions not restricted to specific programs | | | | | 400,529 |
| IE | Investment earnings | | | | | 77,126 |
| MI | Miscellaneous | | | | | <u>466,152</u> |
| TG | Total general revenues, special items, and transfers | | | | | <u>142,409,056</u> |
| CN | Change in net position | | | | | 12,368,898 |
| NB | Net position – beginning | | | | | <u>55,597,969</u> |
| NE | Net position – ending | | | | | <u>\$ 67,966,867</u> |

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

PEARLAND INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET – GOVERNMENTAL FUNDS
JUNE 30, 2013

EXHIBIT C-1
Page 1 of 1

| Data Control Codes | Functions/Programs | 10 General Fund | 50 Debt Service Fund | Other Governmental Funds | 98 Total Governmental Funds |
|---|---|----------------------|-------------------------|-----------------------------|-----------------------------------|
| ASSETS AND DEFERRED OUTFLOW OF RESOURCES: | | | | | |
| Assets: | | | | | |
| 1110 | Cash and cash equivalents | \$ 38,861,216 | \$ 10,664,391 | \$ 5,588,012 | \$ 55,113,619 |
| 1220 | Taxes receivable – delinquent | 2,367,024 | 773,215 | | 3,140,239 |
| 1230 | Allowance for uncollectible taxes (credit) | (1,006,161) | (286,830) | | (1,292,991) |
| 1240 | Receivables from other governments | 15,542,480 | | 2,334,311 | 17,876,791 |
| 1260 | Due from other funds | 1,915,515 | 80,352 | | 1,995,867 |
| 1290 | Other receivables | 805,547 | 289,264 | 17,519 | 1,112,330 |
| 1300 | Inventories | 278,152 | | 226,429 | 504,581 |
| 1410 | Prepaid items | <u>1,551,474</u> | | | <u>1,551,474</u> |
| 1000 | Total assets | <u>60,315,247</u> | <u>11,520,392</u> | <u>8,166,271</u> | <u>80,001,910</u> |
| Deferred Outflow of Resources: | | | | | |
| 1700 | Deferred outflows | | | | -0- |
| | Total deferred outflows of resources | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> |
| 1000A | Total assets and deferred outflows of resources | <u>\$ 60,315,247</u> | <u>\$ 11,520,392</u> | <u>\$ 8,166,271</u> | <u>\$ 80,001,910</u> |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES: | | | | | |
| Liabilities: | | | | | |
| 2110 | Accounts payable | \$ 1,967,032 | \$ | \$ 1,067,378 | \$ 3,034,410 |
| 2140 | Accrued interest payable | | 130,157 | | 130,157 |
| 2150 | Payroll deductions and withholdings | 6,307 | | | 6,307 |
| 2160 | Accrued wages payable | 12,529,363 | | 724,292 | 13,253,655 |
| 2170 | Due to other funds | 80,352 | | 1,886,161 | 1,966,513 |
| 2300 | Unearned revenue | <u>448,992</u> | | <u>58,985</u> | <u>507,977</u> |
| 2000 | Total liabilities | <u>15,032,046</u> | <u>130,157</u> | <u>3,736,816</u> | <u>18,899,019</u> |
| Deferred Inflow of Resources: | | | | | |
| | Deferred inflows - property taxes | <u>966,382</u> | <u>343,745</u> | | <u>1,310,127</u> |
| 2600 | Total deferred inflows of resources | <u>966,382</u> | <u>343,745</u> | <u>-0-</u> | <u>1,310,127</u> |
| Fund Balances: | | | | | |
| 3410 | Non-spendable - inventories | 278,152 | | 226,429 | 504,581 |
| 3430 | Non-spendable - prepaid items | 1,551,474 | | | 1,551,474 |
| 3450 | Restricted - grant funds | | | 3,042,092 | 3,042,092 |
| 3470 | Restricted - capital acquisition and contractual obligations | | | 1,160,839 | 1,160,839 |
| 3480 | Restricted - debt service | | 11,046,490 | | 11,046,490 |
| 3490 | Restricted - other | | | 95 | 95 |
| 3510 | Committed - construction | 7,500,000 | | | 7,500,000 |
| 3590 | Assigned - other | 12,888,000 | | | 12,888,000 |
| 3600 | Unassigned | <u>22,099,193</u> | | | <u>22,099,193</u> |
| 3000 | Total fund balances | <u>44,316,819</u> | <u>11,046,490</u> | <u>4,429,455</u> | <u>59,792,764</u> |
| 4000 | Total liabilities, deferred inflows of resources, and fund balances | <u>\$ 60,315,247</u> | <u>\$ 11,520,392</u> | <u>\$ 8,166,271</u> | <u>\$ 80,001,910</u> |

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

PEARLAND INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE GOVERNMENTAL ACTIVITIES STATEMENT OF NET POSITION
JUNE 30, 2013

EXHIBIT C-1R
Page 1 of 1

| | |
|--|----------------------|
| Total fund balances – governmental funds balance sheet (C-1) | \$ 59,792,764 |
| Amounts reported for <i>governmental activities</i> in the statement of net position (A-1) are different because: | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Capital assets include \$ 430,724,860 in assets less \$ 109,787,117 in accumulated depreciation. | 320,937,743 |
| Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds. Deferred property tax revenues for the general fund and the debt service fund amounted to \$ 966,382 and \$ 343,745, respectively. | 1,310,127 |
| The assets and liabilities of internal service funds are included in governmental activities in the statement of net position. | 319,924 |
| Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds. This is the bond refunding costs which is amortized over the life of the refunding bonds or the refunded bonds, whichever is shorter. This amount is bond refunding costs of \$ 12,874,523 less accumulated costs of \$ 768,321. | 12,106,202 |
| Premium on the issuance of bonds provide current financial resources to governmental funds but the proceeds increase long-term liabilities in the statement of net position. This amount is amortized over the life of the bonds. Net premium on the issuance of bonds were \$ 18,408,747 (premium on sale of bonds of \$ 20,911,616 less amortization costs of \$ 2,502,869). | (18,408,747) |
| Payables for bond principal are not reported in the funds. | (303,102,805) |
| Payables for bond interest are not reported in the funds. | <u>(4,988,341)</u> |
| Net position of governmental activities – statement of net position (A-1) | <u>\$ 67,966,867</u> |

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

PEARLAND INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES – GOVERNMENTAL FUNDS
TEN MONTHS ENDED JUNE 30, 2013

EXHIBIT C-2
Page 1 of 1

| Data Control Codes | Functions/Programs | 10 General Fund | 50 Debt Service Fund | Other Governmental Funds | 98 Total Governmental Funds |
|--|---|----------------------|-------------------------|--------------------------|--------------------------------|
| REVENUES: | | | | | |
| 5700 | Local and intermediate sources | \$ 59,655,076 | \$ 21,352,764 | \$ 4,805,423 | \$ 85,813,263 |
| 5800 | State program revenues | 65,886,326 | 3,123,625 | 1,719,273 | 70,729,224 |
| 5900 | Federal program revenues | <u>524,855</u> | | <u>7,883,566</u> | <u>8,408,421</u> |
| 5020 | Total revenues | <u>126,066,257</u> | <u>24,476,389</u> | <u>14,408,262</u> | <u>164,950,908</u> |
| EXPENDITURES: | | | | | |
| Current: | | | | | |
| 0011 | Instruction | 67,168,041 | | 4,427,423 | 71,595,464 |
| 0012 | Instructional resources and media services | 1,370,027 | | 46 | 1,370,073 |
| 0013 | Curriculum and staff development | 2,843,269 | | 387,556 | 3,230,825 |
| 0021 | Instructional leadership | 1,268,798 | | 170,162 | 1,438,960 |
| 0023 | School leadership | 7,763,885 | | 90,864 | 7,854,749 |
| 0031 | Guidance, counseling, and evaluation services | 3,700,061 | | 798,647 | 4,498,708 |
| 0032 | Social work services | 271,079 | | 2,269 | 273,348 |
| 0033 | Health services | 1,115,310 | | 5,155 | 1,120,465 |
| 0034 | Student transportation | 5,434,623 | | 32,425 | 5,467,048 |
| 0035 | Food Service | | | 7,522,486 | 7,522,486 |
| 0036 | Extracurricular activities | 3,265,010 | | 31,004 | 3,296,014 |
| 0041 | General administration | 2,781,871 | | | 2,781,871 |
| 0051 | Plant maintenance and operations | 11,432,716 | | 411,412 | 11,844,128 |
| 0052 | Security and monitoring services | 1,418,875 | | | 1,418,875 |
| 0053 | Data processing services | 3,587,104 | | 1,640,280 | 5,227,384 |
| 0061 | Community services | 1,352 | | 31,508 | 32,860 |
| 0071 | Principal on long-term debt | | 10,060,000 | | 10,060,000 |
| 0072 | Interest on long-term debt | | 7,126,657 | | 7,126,657 |
| 0073 | Bond issuance costs and fees | | 586,019 | | 586,019 |
| 0080 | Capital outlay | 66,440 | | 3,333,167 | 3,399,607 |
| 0093 | Payments related to shared services arrangements | 4,082,692 | | | 4,082,692 |
| 0095 | Payments to Juvenile Justice Alternative Education Programs | 20,100 | | | 20,100 |
| 0099 | Other intergovernmental charges | <u>408,183</u> | | | <u>408,183</u> |
| 6030 | Total expenditures | <u>117,999,436</u> | <u>17,772,676</u> | <u>18,884,404</u> | <u>154,656,516</u> |
| 1100 | Excess (deficiency) of revenues over expenditures | <u>8,066,821</u> | <u>6,703,713</u> | <u>(4,476,142)</u> | <u>10,294,392</u> |
| OTHER FINANCING SOURCES (USES): | | | | | |
| 7911 | Issuance of bonds | | 53,645,000 | | 53,645,000 |
| 7915 | Transfers in | | | 3,717,700 | 3,717,700 |
| 7916 | Premium on issuance of bonds | | 6,148,388 | | 6,148,388 |
| 8911 | Transfers out | (3,717,700) | | | (3,717,700) |
| 8949 | Payments to escrow agent | | (60,014,616) | | (60,014,616) |
| | Total other financing sources and (uses) | <u>(3,717,700)</u> | <u>(221,228)</u> | <u>3,717,700</u> | <u>(221,228)</u> |
| 1200 | Net change in fund balances | 4,349,121 | 6,482,485 | (758,442) | 10,073,164 |
| 0100 | Fund balances – beginning | <u>39,967,698</u> | <u>4,564,005</u> | <u>5,187,897</u> | <u>49,719,600</u> |
| 3000 | Fund balances – ending | <u>\$ 44,316,819</u> | <u>\$ 11,046,490</u> | <u>\$ 4,429,455</u> | <u>\$ 59,792,764</u> |

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

PEARLAND INDEPENDENT SCHOOL DISTRICT

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO
GOVERNMENTAL ACTIVITIES STATEMENT OF ACTIVITIES
TEN MONTHS ENDED JUNE 30, 2013**

EXHIBIT C-2R
Page 1 of 1

Net change in fund balances – total governmental funds (from C-2) \$ 10,073,164

Amounts reported for governmental activities in the statement of activities (B-1) are different because:

Governmental funds report capital outlays as expenditures. However, in the governmental activities statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays \$ 5,345,820 was less than depreciation \$ 8,798,821 in the current period. (3,453,001)

Contributions of capital assets are not reported in the funds, however, contributions of capital assets are reported as capital contributions in the governmental activities statement of activities. During the current year, \$ 20,801 in equipment was contributed to and accepted by the District. 20,801

Property tax revenues in the governmental activities statement of activities do not provide current financial resources and are not reported as revenues in the funds. Deferred property tax revenues for the general fund and the debt service fund amounted to \$ 122,403 and \$ 29,622, respectively. (152,025)

Accretion of capital appreciation bonds increases debt service interest expense in the governmental activities statement of activities but is not reported in governmental funds. (197,191)

Premium on the issuance of bonds provide current financial resources to governmental funds but the proceeds decrease long-term assets in the statement of net position. This amount is amortized over the life of the bonds. Net premium on the issuance of bonds were \$ 4,915,169 (premium on sale of bonds of \$ 5,738,471 less amortization of \$ 823,302). (4,915,169)

Deferred refunding cost is another use in the governmental funds, but the costs increase long-term assets in the statement of net position. This amount is amortized over the life of the refunding bonds or the refunded bonds, whichever is shorter. The payments to escrow agent of \$ 60,014,616 less bond principal refunded of \$ 55,175,000 equals \$ 4,839,616 cost of refunding less accumulated amortization of \$ 542,601. 4,297,015

Long-term debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the governmental activities statement of net position. Long-term proceeds in the governmental fund were \$ 54,054,918 (principal of \$ 53,645,000 plus capital appreciation bond premium of \$ 409,918) for bonds, less \$ 55,175,000 of bonds refunded. 1,120,082

Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the governmental activities statement of net position. This amount was for general obligation bonded debt \$ 10,060,000. 10,060,000

Some expenses reported in the governmental activities statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. This is the amount of accrued interest on long-term debt of \$ 4,362,763. (4,362,763)

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 in the governmental activities statement of activities (see D-2) (122,015)

Change in net position of governmental activities (see B-1) \$ 12,368,898

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

PEARLAND INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2013

EXHIBIT D-1
Page 1 of 1

| <u>Data Control Codes</u> | | <u>Governmental Activities Internal Service Fund - Workers Compensation</u> |
|-----------------------------------|--|---|
| | ASSETS: | |
| | Current Assets: | |
| 1110 | Cash and cash equivalents | \$ <u>469,963</u> |
| | Total assets | <u>469,963</u> |
| | DEFERRED OUTFLOWS OF RESOURCES: | |
| 1700 | Deferred outflows | <u> </u> |
| | Total deferred outflows of resources | <u>-0-</u> |
| | Total assets and deferred outflows of resources | <u>\$ 469,963</u> |
| | LIABILITIES: | |
| | Current Liabilities: | |
| 2165 | Accrued expenses payable | \$ <u>150,039</u> |
| | Total liabilities | <u>150,039</u> |
| | DEFERRED INFLOWS OF RESOURCES: | |
| 2600 | Deferred inflows | <u> </u> |
| | Total deferred inflows of resources | <u>-0-</u> |
| | NET POSITION: | |
| 3900 | Unrestricted net position | <u>319,924</u> |
| | Total net position | <u>319,924</u> |
| | Total liabilities, deferred inflows of resources, and net position | <u>\$ 469,963</u> |

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

PEARLAND INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET POSITION
PROPRIETARY FUNDS
TEN MONTHS ENDED JUNE 30, 2013

EXHIBIT D-2
Page 1 of 1

| | Governmental Activities Internal Service Fund – Workers Compensation |
|--|---|
| Operating Revenues: | |
| Charges for services | \$ <u>954</u> |
| Total operating revenues | <u>954</u> |
| Operating Expenses: | |
| Insurance claims and expenses | <u>123,700</u> |
| Total operating expenses | <u>123,700</u> |
| Operating income (loss) | (<u>122,746</u>) |
| Nonoperating Revenues (Expenses): | |
| Interest and investment revenue | <u>731</u> |
| Total nonoperating revenues (expenses) | <u>731</u> |
| Income (loss) before contributions and transfers | (<u>122,015</u>) |
| Contributions and transfers | <u> </u> |
| Total contributions and transfers | <u>-0-</u> |
| Changes in net position | (<u>122,015</u>) |
| Net position – beginning | <u>441,939</u> |
| Net position – ending | \$ <u><u>319,924</u></u> |

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

PEARLAND INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CASH FLOW
PROPRIETARY FUNDS
TEN MONTHS ENDED JUNE 30, 2013

EXHIBIT D-3
Page 1 of 1

| | Governmental Activities Internal Service Fund – Workers <u>Compensation</u> |
|---|--|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Receipts from customers | \$ 954 |
| Claims paid | <u>(290,991)</u> |
| Net cash used by operating activities | <u>(290,037)</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | |
| Net cash provided (used) by noncapital financing activities | <u>-0-</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | |
| Net cash provided (used) by capital and related financing activities | <u>-0-</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Interest and dividends | <u>731</u> |
| Net cash provided by investing activities | <u>731</u> |
| Net decrease in cash and cash equivalents | (289,306) |
| Balances – beginning of year | <u>759,269</u> |
| Balances – end of year | <u>\$ 469,963</u> |
| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES: | |
| Operating loss | \$(122,746) |
| Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities: | |
| Changes in Assets and Deferred Outflows of Resources, and Liabilities and Deferred Inflows of Resources: | |
| Accrued expenses payable | <u>(167,291)</u> |
| Net cash used by operating activities | <u>\$(290,037)</u> |

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

PEARLAND INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2013

EXHIBIT E-1
Page 1 of 1

| | <u>Agency Funds</u> |
|-------------------------------|-------------------------|
| ASSETS: | |
| Cash and cash equivalents | \$ 2,368,025 |
| Receivables: | |
| Other receivables | <u>4,424</u> |
| Total assets | <u>\$ 2,372,449</u> |
| LIABILITIES: | |
| Accounts payable | \$ 99,246 |
| Due to other funds | 29,354 |
| Amounts due to student groups | <u>2,243,849</u> |
| Total liabilities | <u>\$ 2,372,449</u> |

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

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PEARLAND INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
TEN MONTHS ENDED JUNE 30, 2013

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PEARLAND INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

TEN MONTHS ENDED JUNE 30, 2013

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Pearland 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 promulgated by the Governmental Accounting Standards Board (GASB) and other authoritative sources; and it complies with the requirements of the appropriate version of Texas Education Agency's (the "TEA") *Financial Accountability System Resource Guide* (the "Resource Guide" or "FASRG") and the requirements of contracts and grants of agencies from which it receives funds.

The District's Financial Statements are in accordance with GASB Statement No. 34, "Basic Financial Statements and Management Discussion and Analysis for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus" which provides additional guidance for the implementation of GASB Statement No. 34, and GASB Statement No. 38 "Certain Financial Statement Disclosures" which changes the note disclosure requirements in the financial statements for governmental entities.

GASB Statement No. 34 established a new financial reporting model for state and local governments that included the addition of management's discussion and analysis, government-wide financial statements, required supplementary information and the elimination of the effects of internal service activities and the use of account groups to the already required fund financial statements and notes.

The GASB determined that fund accounting has and will continue to be essential in helping governments to achieve fiscal accountability and should, therefore, be retained. The GASB also determined that government-wide financial statements are needed to allow user's of financial reports to assess a government's operational accountability. The GASB Statement No. 34 reporting model integrates fund-based financial reporting and government-wide financial reporting as complementary components of a single comprehensive financial reporting model.

The following is a summary of the most significant accounting policies.

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 basic 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 basic 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.

PEARLAND INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

TEN MONTHS ENDED JUNE 30, 2013

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reporting Entity (Continued)

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 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.

The Board of Trustees (the "Board") is elected by the public and has the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has the primary accountability for fiscal matters. Therefore, the District is a financial reporting entity as defined by the Governmental Accounting Standards Board (GASB) in its GASB Statement No. 61, "The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14. and No. 34". The District receives support from various PTO, booster clubs and foundation organizations. None of these organizations meet the criteria specified by GASB 61 to be included in the District's financial statements. Therefore, there are no component units included within the reporting entity.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of changes in net position) report financial information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. The *governmental activities* are supported by tax revenues and intergovernmental revenues. The District has no *business-type activities* that rely, to a significant extent, on fees and charges for support.

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

Interfund activities between governmental funds appear as due to/due from on the Governmental Fund Balance Sheet and as other resources and other uses on the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balance. All interfund transactions between governmental funds and internal service funds are eliminated on the government-wide statements. Interfund activities between governmental funds and fiduciary funds are reported as receivables and payables on the government-wide Statement of Net Position.

PEARLAND INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

TEN MONTHS ENDED JUNE 30, 2013

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 in 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 and fiduciary 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 revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. 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 government 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.

Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State of Texas are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

Revenue from investments, including governmental external investment pools, is based upon fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. External investment pools are permitted to report short-term debt investments at amortized cost, provided that the fair value of those investments is not significantly affected by the impairment of the credit standing of the issuer, or other factors. For that purpose, a pool's short-term investments are those with remaining maturities of up to ninety days.

Grant funds are considered earned to the extent of the expenditures made under the provisions of the grant. Accordingly, when such funds are received, they are recorded as unearned revenues until the related and authorized expenditures have been made. If balances have not been expended by the end of the project period, grantors sometimes require the District to refund all or part of the unused amount.

PEARLAND INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

TEN MONTHS ENDED JUNE 30, 2013

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis Of Accounting, and Financial Statement Presentation (Continued)

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

The District reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund. Major revenue sources include local property taxes, state funding under the Foundation School Program and interest earnings. Expenditures include all costs associated with the daily operations of the District except for specific programs funded by the federal and state government, food service, debt service, and capital projects.

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 for which a tax has been dedicated. This is a budgeted fund and a separate bank account is maintained for this fund. Any unused sinking fund balances are transferred to the general fund after all of the related debt obligations have been met. Major revenue sources include local property taxes, and interest earnings. Expenditures include all costs associated with related debt service.

The District reports the following proprietary funds:

The *internal service fund* accounts for the District's self-funded worker's compensation program. The revenues of this fund are received from the general funds, and the expenses are comprised of claims paid on behalf of the District. The general fund is contingently liable for liabilities of this fund. See Note 14 for additional discussion of the District's self-insurance workmen's compensation plan.

The worker's compensation program provides for incurred but not reported costs for worker's compensation claims through the establishment of undiscounted liability accounts and net position. As of June 30, 2013, undiscounted liabilities totaled \$ 150,039 and net position of the worker's compensation program were \$ 319,924. The District chose to switch to a fully insured workers' compensation program with Texas Mutual Insurance Company as of September 1, 2012. The above liability is from claims before September 1, 2012 from the self-insured program which have not been closed out as of June 30, 2013.

Proprietary funds distinguish operating revenues and expenses from nonoperating 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.

Additionally, the District reports the following fiduciary funds:

The *agency funds* account for resources held in a custodial capacity by the District, and consists of funds that are the property of students or others.

PEARLAND INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

TEN MONTHS ENDED JUNE 30, 2013

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Investments

The District considers highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased to be cash equivalents.

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, investments are reported at fair value. Fair values are based on published market rates. Current investments have an original maturity of greater than three months but less than one year at the time of purchase. Non-current investments have an original maturity of greater than one year at the time of purchase.

Interfund 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 outstanding balances between funds are reported as "due to/from other funds". The District had no advances between funds. See Note 6 for additional discussion of interfund receivables and payables.

Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of January 1 for all real and business property located in the district in conformity with Subtitle E, Texas Property Tax Code. Taxes are due upon receipt of the tax bill and are past due and subject to interest if not paid by February 1 of the year following the October 1 levy date. On January 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed.

The appraisal and recording of all property within the District is the responsibility of the Brazoria County Appraisal District (BCAD), an independent governmental unit with a board of directors appointed by the taxing jurisdictions within the county and funded from assessments against those taxing jurisdictions. BCAD is required by law to assess property at 100% of its appraised value. Real property must be reappraised at least every two years.

Under certain circumstances taxpayers and taxing units, including the District, may challenge orders of the BCAD Review Board through various appeals and, if necessary, legal action.

The assessed value of the property tax roll on August 1, 2012, upon which the levy for the 2012-13 fiscal year was based, was \$ 5,300,745,597. Taxes are delinquent if not paid by June 30. Delinquent taxes are subject to both penalty and interest charges plus 20% delinquent collection fees for attorney costs.

The tax rates assessed for the ten months ended June 30, 2013, to finance general fund operations and the payment of principal and interest on general obligation long-term debt were \$ 1.0400 and \$ 0.3794 per \$ 100 valuation, respectively, for a total of \$ 1.4194 per \$ 100 valuation.

PEARLAND INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

TEN MONTHS ENDED JUNE 30, 2013

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property Taxes (Continued)

Current tax collections for the ten months ended June 30, 2013 were 99.30% of the ten months end adjusted tax levy. Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectible taxes within the general and debt service funds are based on historical experience in collecting taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature. As of June 30, 2013, property taxes receivable, net of estimated uncollectible taxes, totaled \$ 1,360,863 and \$ 486,385 for the general and debt service funds, respectively.

Inventories

The consumption method is used to account for inventories (food products, school supplies and athletic equipment) of governmental funds. Under this method, these items are carried in an inventory account of the respective fund at cost, using the first-in, first-out method of accounting and are subsequently charged to expenditures when consumed. Governmental fund inventories are offset by a fund balance reserve indicating that they are unavailable as current expendable financial resources. Inventories of food commodities are recorded at market values supplied by the Texas Department of Human Services. Although commodities are received at no cost, their market value is recorded as inventory and deferred revenue when received in the governmental funds. When requisitioned, inventory and deferred revenue are relieved, expenditures are charged, and revenue is recognized for an equal amount.

Capital Assets and Depreciation

Capital assets, which include land, buildings and improvements, and furniture, equipment and vehicles, are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$ 5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair 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. When assets are retired or otherwise disposed of, the related costs or other recorded amounts are removed.

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

| <u>Assets</u> | <u>Years</u> |
|-------------------------------------|--------------|
| Buildings and building improvements | 5-50 |
| Furniture and equipment | 5-10 |
| Vehicles | 5-10 |

PEARLAND INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

TEN MONTHS ENDED JUNE 30, 2013

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Outflows and Inflows of Resources

Guidance for deferred outflows of resources and deferred inflows of resources is provided by GASB No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position". Concepts Statement No. 4, Elements of Financial Statements, introduced and defined those elements as a consumption of net position by the government that is applicable to a future reporting period, and an acquisition of net position by the government that is applicable to a future period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. Further, GASB No. 65, "Items Previously Reported as Assets and Liabilities", had an objective to either (a) properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or (b) recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues).

Compensated Absences

Compensated absences are absences for which employees will be paid. A liability for compensated absences that are attributable to services already rendered and that are not contingent on a specific event that is outside the control of the government and its employees is accrued as employees earn the rights to the benefits. Compensated absences that relate to future services or that are contingent on a specific event that is outside the control of the government and its employees are accounted for in the period in which such services are rendered or such events take place.

In the governmental funds, compensated absences that are expected to be liquidated with expendable available resources are reported as an expenditure and fund liability in the fund that will pay for them. The remainder of the compensated absences liability is reported in long-term liabilities on the statement of net position.

Vacations are to be taken within the same year they are earned, and any unused days at the end of the year are forfeited. Therefore, no liability has been accrued in the accompanying basic financial statements. The District's sick leave policy allows employees to carryover unused sick days to subsequent years. Any employee who retires from the District through the Teacher Retirement System of Texas shall at the end of the last year of employment receive a lump-sum payment of unused sick leave up to a maximum of one hundred days determined by formula (number of unused local sick leave multiplied by final year contract salary divided by twice the number of days on contract multiplied by number of years in district divided by twenty). If the calculated lump-sum payment is less than \$ 100, no payment will be made. A summary of changes in the accumulated sick leave liability follows:

A summary of changes in the accumulated sick leave liability follows:

| | <u>2013</u> | <u>2012</u> |
|------------------------------|---------------------|---------------------|
| Balance, September 1 | \$ 1,025,709 | \$ 1,042,852 |
| Additions – net unused | 343,676 | 208,945 |
| Deductions – payments | <u>(145,897)</u> | <u>(226,088)</u> |
| Balance, June 30 / August 31 | <u>\$ 1,223,488</u> | <u>\$ 1,025,709</u> |

PEARLAND INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

TEN MONTHS ENDED JUNE 30, 2013

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Compensated Absences (Continued)

The amounts attributable to the current and non-current portions on the liability resulting from this policy can only be estimated. As such, the entire amount of the liability is accounted for in the general fund (\$ 1,188,861) and the Food Service - Special Revenue Fund (\$ 34,627).

Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as expenditures or expenses in the current period.

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 the debt issued is reported as other financing resources. 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.

Budgetary Data

Formal budgetary accounting is employed for all required governmental funds, as outlined in TEA's FASRG, and is presented on the modified accrual basis of accounting consistent with generally accepted accounting principles. The budget is prepared and controlled at the function level within each organization to which responsibility for controlling operations is assigned.

The official school budget is prepared for adoption for required governmental funds prior to August 20 of the preceding fiscal year for the subsequent fiscal year beginning September 1. The budget is formally adopted by the Board of Trustees at a public meeting held at least ten days after public notice has been given.

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund, debt service fund and the food service (special revenue fund). The remaining special revenue funds and the capital projects fund (if utilized) adopt project-length budgets, which do not correspond to the District's fiscal year. Each annual budget is presented on the modified accrual basis of accounting, which is consistent with generally accepted accounting principles. The budget was properly amended throughout the year by the Board of Trustees. Such amendments are before the fact and are reflected in the official minutes of the Board.

The Official Budget was prepared for adoption for the general fund, food service (special revenue fund) and debt service fund prior to August 31, 2012. The budget is prepared by fund, function, object, and organization. The budget is controlled at the organizational level by the appropriate department head or campus principal within Board allocations. Therefore,

PEARLAND INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

TEN MONTHS ENDED JUNE 30, 2013

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgetary Data (Continued)

organizations may transfer appropriations as necessary without the approval of the board unless the intent is to cross fund, function or increase the overall budget allocations. Control of appropriations by the Board of Trustees is maintained within fund groups at the function code level and revenue object code level.

The Budget is formally adopted by the Board of Trustees at a duly advertised public meeting in accordance with law prior to the expenditure of funds. The approved budget is filed with the Texas Education Agency (TEA) through the Public Education Information Management System. Should any change in the approved budget be required, budget amendment requests are presented to the Board of Trustees for consideration. Amendments are made before the fact and once approved are reflected in the official minutes. During the year the budget was properly amended in accordance with the above procedures. The Board of Trustees approved the final budget amendment on June 11, 2013.

Encumbrance Accounting

The District utilizes encumbrance accounting, in its governmental funds. Encumbrances represent commitments related to contracts not yet performed (executor contracts), and are used to control expenditures for the period and to enhance cash management. A school district offens issues purchase orders or signs contracts for the purchase of goods and services to be received in the future. At the time these commitments are made, which in its simplest form means that when a purchase order is prepared, the appropriate account is checked for available funds. If an adequate balance exists, the amount of the order is immediately charged to the account to reduce the available balance for control purposes. The encumbrance account does no represent and expenditure for the period, only a commitment to expend resources.

Prior to the end of the current period, every effort should be made to liquidate outstanding encumbrances. When encumbrances are outstanding at the current period end, the school district likely will honor the open purchase orders or contracts that support the encumbrances. For reporting purposes, as noted earlier, outstanding encumbrances are not considered expenditures for the current period. If the school district allows encumbrances to lapse, even though it plans to honor the encumbrances, the appropriations authority expires and the items represented by the encumbrances are usually re-appropriated in the following year's budget. Open encumbrances at current period-end are included in restricted, committed or assigned fund balance, as appropriate.

At June 30, 2013, certain amounts which were previously identified with specific purposes have been encumbered in the government funds. Significant encumbrances included in governmental fund balances are as follows:

| | <u>General Fund</u> | <u>Food Service Special Revenue Fund</u> | <u>Capital Project Fund</u> | <u>Total</u> |
|---------------|-------------------------|--|-------------------------------------|---------------------|
| Encumbrances: | | | | |
| Restricted | \$ | \$ 21,763 | \$ 333,357 | \$ 355,120 |
| Unassigned | <u>909,490</u> | <u> </u> | <u> </u> | <u>909,490</u> |
| | <u>\$ 909,490</u> | <u>\$ 21,763</u> | <u>\$ 333,357</u> | <u>\$ 1,264,610</u> |

PEARLAND INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

TEN MONTHS ENDED JUNE 30, 2013

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balances

The District's Board of Trustees meets on a regular basis to manage and review cash financial activities and to ensure compliance with established policies. The District's Unassigned General Fund Balance is maintained to provide the District with sufficient working capital and a margin of safety to address local and regional emergencies without borrowing. The unassigned General Fund Balance may only be appropriated by resolution of the Board of Trustees. Fund Balance of the District may be committed for a specific source by formal action of the District's Board of Trustees. Amendments or modifications of the committed fund balance must also be approved by formal action by the District's Board of Trustees. When it is appropriate for fund balance to be assigned, the Board of Trustees delegates authority to the Superintendent or the Chief Financial Officer. In circumstances where an expenditure is to be made for a purpose for which amounts are available in multiple fund balance classifications, the order in which resources will be expended as follows: restricted fund balance, followed by committed fund balance, assigned fund balance, and lastly, unassigned fund balance.

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

Nonspendable Fund Balance - Includes amounts that cannot be spent because they are either not in spendable form, or, for legal or contractual reasons, must be kept intact. This classification includes inventories, prepaid amounts, assets held for sale, and long-term receivables.

Restricted Fund Balance - Constraints placed on the use of these resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors or other governments; or are imposed by law (through constitutional provisions of enabling legislation).

Committed Fund Balance - Amounts that can only be used for specific purposes because of a formal action (resolution or ordinance) by the government's highest level of decision-making authority.

Assigned Fund Balance - Amounts that are constrained by the District's intent to be used for specific purposes, but that do not meet the criteria to be classified as restricted or committed. Intent can be stipulated by the governing body, another body (such as a Finance Committee), or by an official to whom that authority has been given. With the exception of the General Fund, this is the residual fund balance classification for all governmental funds with positive balances.

Unassigned Fund Balance - This is the residual classification of the General Fund. Only the General Fund reports a positive unassigned fund balance. Other governmental funds might report a negative balance in this classification, as the result of overspending for specific purposes for which amount had been restricted, committed or assigned.

PEARLAND INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

TEN MONTHS ENDED JUNE 30, 2013

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balances (Continued)

As of June 30, 2013, non-spendable fund balances includes \$ 278,152 for inventories, and \$ 1,551,474 for prepaid items in the General fund. The Food Service special revenue fund non-spendable fund balance includes \$ 226,429 for inventories. Restricted fund balances included \$ 11,046,490 for Debt Service fund, \$ 2,947,470 for the Food Service (special revenue fund, \$ 8,994 for AP/IB Campus Awards special revenue fund, \$ 85,628 for Instructional Materials Allocation special revenue fund, \$ 95 for the Northern Brazoria County Alliance special revenue fund, and \$ 1,160,839 for the Capital Projects fund. Committed fund balance includes \$ 7,500,000 for construction in the General fund. Assigned fund balance includes \$ 12,888,000 for other purposes in the General fund. Unassigned fund balance includes \$ 22,099,193 in the General fund.

Data Control Codes

The data control codes refer to the account code structure prescribed by TEA in the FASRG. The TEA requires school districts to display these codes in the financial statements filed with the Agency in order to ensure accuracy in building a statewide database for policy development and funding plans.

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 reporting amounts of assets and deferred outflows of resources, and, liabilities and deferred inflows of resources at the date of the financial statements, and the reported amounts of revenues and expenditures during the period. Actual results could differ from these estimates.

New Pronouncements

GASB issues statements on a routine basis with the intent to provide authoritative guidance on the preparation of financial statements and to improve governmental accounting and financial reporting of governmental entities. Management reviews these statements to ensure that preparation of its financial statements are in conformity with generally accepted accounting principles and to anticipate changes in those requirements. The following recent GASB Statements reflect the action and consideration of management regarding these requirements:

GASB Statement No. 60, "Accounting and Financial Reporting for Service Concession Arrangements", was issued November 2010. The statement was implemented and did not have an impact on the District's financial statements. This statement is effective for periods beginning after December 15, 2011.

GASB Statement No. 61, "The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and No. 34", was issued November 2010. The statement was implemented and did not have an impact on the District's financial statements. This statement is effective for periods beginning after June 15, 2012.

PEARLAND INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

TEN MONTHS ENDED JUNE 30, 2013

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

GASB Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements", was issued December 2010. The statement was implemented and did not have an impact on the District's financial statements. This statement is effective for periods beginning after December 15, 2011.

GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position", was issued June 2011. The statement was implemented and did not have an impact on the District's financial statements, although it has reclassified items previously recorded as assets and liabilities within the District's financial statements as deferred outflows and inflows of resources. This statement is effective for periods beginning after December 15, 2011.

GASB Statement No. 64, "Derivative Instruments: Application of Hedge Accounting Termination Provisions-and amendment of GASB Statements No. 53", was issued June 2011. The statement was implemented and did not have an impact on the District's financial statements.

GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities", was issued March 2012. The statement was implemented and did have an impact on the District's financial statements (See Note 2 Changes in Accounting Principles / Prior Period Adjustments). This statement is effective for periods beginning after December 15, 2012 and was adopted in the current fiscal year.

GASB Statement No. 66, "Technical Corrections – 2012 - an amendment of GASB Statements No. 10 and No. 62", was issued March 2012. The management of the District does not believe that the implementation of this statement will have a material effect on the financial statements of the District. This statement is effective for periods beginning after December 15, 2012.

GASB Statement No. 67, "Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25", was issued June 2012. The management of the District does not believe that the implementation of this statement will have a material effect on the financial statements of the District. This statement is effective for periods beginning after June 15, 2013.

GASB Statement No. 68, "Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27", was issued June 2012. The management of the District does believe that the implementation of this statement will have a material effect on the financial statements of the District. This statement is effective for periods beginning after June 15, 2014.

GASB Statement No. 69, "Government Combinations and Disposals of Government Operations", was issued January 2013. The management of the District does not believe that the implementation of this statement will have a material effect on the financial statements of the District. This statement is effective for periods beginning after December 15, 2013.

GASB Statement No. 70, "Accounting and Financial Reporting for Nonexchange Financial Guarantees", was issued April 2013. The management of the District does not believe that the implementation of this statement will have a material effect on the financial statements of the District. This statement is effective for periods beginning after June 15, 2013

PEARLAND INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

TEN MONTHS ENDED JUNE 30, 2013

NOTE 2. CHANGE IN ACCOUNTING PERIOD

During the year ended August 31, 2012, the District elected and received permission from the Texas Education Agency to change its fiscal year end from August 31st to June 30th. The District elected to change its year-end primarily to better match its fiscal year with the school year which ends in June.

NOTE 3. CHANGE IN ACCOUNTING PRINCIPLE

During the ten months ended June 30, 2013, the District implemented GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities". This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. As a result, bond issuance costs are no longer accounted for as an asset to be amortized over future periods. Accounting changes adopted to conform to the provisions of this Statement should be applied retroactively by restating financial statements, if practical, for all periods presented.

The following represents the retroactive restatement of net position and changes in net position as a result of implementation of GASB Statement No. 65 as noted above:

| | <u>2012</u> | <u>2011</u> |
|---|----------------------|----------------------|
| <u>Governmental Activities</u> | | |
| Net position, August 31, previously reported | \$ 57,507,845 | \$ 57,842,924 |
| Elimination of net bond issuance costs | (1,909,876) | (1,491,133) |
| Net position, August 31, restated | <u>\$ 55,597,969</u> | <u>56,351,791</u> |
| Change in net position for the year ended August 31, 2012, previously reported | \$(335,076) | |
| Expenses: | | |
| Debt Service – Interest and Fees on Long-Term Debt: | | |
| Current year bond issuance costs | (554,019) | |
| Current year amortization of bond issuance costs | <u>135,273</u> | |
| Change in net position for the year ended August 31, 2012, restated | <u>\$(753,822)</u> | <u>(753,822)</u> |
| Net position, August 31, 2012, restated | | <u>\$ 55,597,969</u> |

This change in accounting principle had no effect on governmental funds fund balance or changes in fund balance.

PEARLAND INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

TEN MONTHS ENDED JUNE 30, 2013

NOTE 4. DEPOSITS, INVESTMENTS AND DERIVATIVES

The District classifies deposits and investments for financial statement purposes as cash and cash equivalents, current investments, and non-current investments based upon both liquidity (demand deposits) and maturity date (deposits and investments) of the asset at the date of purchase. For this purpose an investment is considered a cash equivalent if when purchased it has a maturity of three months or less. Investments are classified as either current investments or non-current investments. Current investments have maturity of one year or less and non-current investments are those that have a maturity of a year or more.

See Note 1 for additional Governmental Accounting Standards Board Statement No. 31 disclosures.

Cash and cash equivalents as reported on the statement of net position at June 30, 2013 are as follows:

| | <u>Governmental Funds</u> | <u>Proprietary (Internal Service) Funds</u> | <u>Fiduciary Funds</u> | <u>Total</u> |
|--------------------------------------|-------------------------------|---|----------------------------|---------------------|
| Cash and Cash Equivalents: | | | | |
| Cash (petty cash accounts) | \$ 17,577 | \$ | \$ | \$ 17,577 |
| Financial Institution Deposits: | | | | |
| Demand deposits | 35,081,408 | 435,997 | 1,773,390 | 37,290,795 |
| Local Government Investment Pool: | | | | |
| Texpool | <u>20,014,634</u> | <u>33,966</u> | <u>594,635</u> | <u>20,643,235</u> |
| | <u>\$55,113,619</u> | <u>\$ 469,963</u> | <u>\$ 2,368,025</u> | <u>\$57,951,607</u> |

Deposits

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a financial institution failure, the District’s deposits may not be returned to them. The District requires that all deposits with financial institutions be collateralized in an amount equal to 100 percent of uninsured balances.

Under Texas state law, a bank serving as the school depository must have a bond or in lieu thereof, deposited or pledged securities with the District or an independent third party agent, an amount equal to the highest daily balance of all deposits the District may have during the term of the depository contract, less any applicable FDIC insurance.

At June 30, 2013, in addition to petty cash of \$ 17,577, the carrying amount of the District's cash, savings, and time deposits was \$ 37,290,795. The financial institutions balances were \$ 40,416,071 at June 30, 2013. Bank balances of \$ 250,000 were covered by federal depository insurance, and \$ 40,166,071 was covered by collateral pledged in the District's name. The collateral was held in safekeeping departments of unrelated banks, which act as the pledging bank's agent.

PEARLAND INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

TEN MONTHS ENDED JUNE 30, 2013

NOTE 4. DEPOSITS, INVESTMENTS AND DERIVATIVES (Continued)

Deposits (Continued)

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

Depository:

- a. Name of bank: Wells Fargo Bank, Pearland, Texas.
- b. Amount of bond and/or security pledged as of the date of the highest combined balance on deposit was \$ 76,319,178.
- c. Largest cash, savings and time deposit combined account balance amounted to \$ 65,185,025 and occurred on March 26, 2013.
- d. Total amount of FDIC coverage at the time of the largest combined balance was \$ 250,000.

Investments

Chapter 2256 of the Texas Government Code (the Public Funds Investment Act) authorizes the District to invest its funds under written investment policy (the "investment policy") that primarily emphasizes safety of principal and liquidity, addresses investment diversification, yield, and maturity and addresses the quality and capability of investment personnel. This investment policy defines what constitutes the legal list of investments allowed under the policies, which excludes certain instruments allowed under chapter 2256 of the Texas Government Code.

The District's deposits and investments are invested pursuant to the investment policy, which is approved by the Board of Trustees. The investment policy includes lists of authorized investment instruments and allowable stated maturity of individual investments. In addition it includes an "Investment Strategy Statement" that specifically addresses each investment option and describes the priorities of suitability of investment type, preservation and safety of principal, liquidity, marketability, diversification and yield. Additionally, the soundness of financial institutions (including broker/dealers) in which the District will deposit funds is addressed. The District's investment policy and types of investments are governed by the Public Funds Investment Act (PFIA). The District's management believes it complied with the requirements of the PFIA and the District's investment policy.

The District's Investment Officer submits an investment report each quarter to the Board of Trustees. The report details the investment positions of the District and the compliance of the investment portfolio's as they relate to both the adopted investment strategy statements and Texas State law.

PEARLAND INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

TEN MONTHS ENDED JUNE 30, 2013

NOTE 4. DEPOSITS, INVESTMENTS AND DERIVATIVES (Continued)

Investments (Continued)

The District is authorized to invest in the following investment instruments provided that they meet the guidelines of the investment policy:

1. Obligations of, or guaranteed by, governmental entities as permitted by Government Code 2256.009;
2. Certificates of deposit and share certificates as permitted by Government Code 2256.010;
3. Fully collateralized repurchase agreements permitted by Government Code 2256.011;
4. Banker's acceptances as permitted by Government Code 2256.012;
5. Commercial paper as permitted by Government Code 2256.013;
6. No-load money market mutual funds and no-load mutual funds as permitted by Government Code 2256.014;
7. A guaranteed investment contract as an investment vehicle for bond proceeds, provided it meets the criteria and eligibility requirements established by Government Code 2256.015; and
8. Public funds investment pools as permitted by Government Code 2256.016.

The District invests in Texpool to provide its liquidity needs. Texpool is a local government investment pool that was established in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code and the Public Funds Investment Act, Chapter 2256 of the Code. Texpool is a 2(a)7 like fund, meaning that it is structured similar to a money market mutual fund. Such funds allow shareholders the ability to deposit or withdraw funds on a daily basis. Interest rates are also adjusted on a daily basis. Such funds seek to maintain a constant net asset value of \$ 1.00, although this cannot be fully guaranteed. Texpool is rated AAAM and must maintain a dollar weighted average maturity not to exceed 60 days, which is the limit.

At June 30, 2013 Texpool had a weighted average maturity of 48 days. Although Texpool portfolio had a weighted average maturity of 48 days, the District considers holdings in these funds to have a one day weighted average maturity. This is due to the fact that the share position can usually be redeemed each day at the discretion of the shareholder, unless there has been a significant change in value.

All of the District's investments are insured, registered, or the District's agent holds the securities in the District's name; therefore, the District is not exposed to custodial credit risk.

The following table includes the portfolio balances of all investment types of the District at June 30, 2013.

PEARLAND INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
TEN MONTHS ENDED JUNE 30, 2013

NOTE 4. DEPOSITS, INVESTMENTS AND DERIVATIVES (Continued)

Investments (Continued)

| | <u>Market Value</u> |
|-----------------------------------|-------------------------|
| Local Government Investment Pool: | |
| Governmental Funds: | |
| General Fund: | |
| Texpool | \$ 12,098,618 |
| Debt Service Fund: | |
| Texpool | 6,232,780 |
| Capital Projects Fund: | |
| Texpool | <u>1,683,236</u> |
| Total governmental funds | 20,014,634 |
| Internal Service Funds: | |
| Worker's Compensation: | |
| Texpool | 33,966 |
| Agency Funds: | |
| Texpool | <u>594,635</u> |
| Total investments | <u>\$ 20,643,235</u> |

Credit Risk – As of June 30, 2013, the local government investment pool (which represents 100% of the unrestricted portfolio) are rated AAAM by Standard and Poor's.

Interest Rate Risk – As a means of minimizing risk of loss due to interest rate fluctuations, the Investment Policy requires that investment maturities will not exceed the lesser of a dollar weighted average maturity of 365 days or the anticipated cash flow requirements of the funds. Quality short-to-medium term securities should be purchased, which complement each other in a structured manner that minimizes risk and meets the District's cash flow requirements.

Derivatives

Interest in derivative products has increased in recent years. Derivatives are investment products, which may be a security or contract, which derives its value from another security, currency, commodity, or index, regardless of the source of funds used. The District made no direct investments in derivatives during the ten months ended June 30, 2013, and holds no direct investments in derivatives at June 30, 2013.

PEARLAND INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

TEN MONTHS ENDED JUNE 30, 2013

NOTE 5. RECEIVABLES, UNCOLLECTIBLE ACCOUNTS, DEFERRED INFLOWS OF RESOURCES, AND UNEARNED REVENUES

Receivables and Allowances

Receivables as of June 30, 2013, for the government's individual major funds and nonmajor, internal service, and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

| | <u>General Fund</u> | <u>Debt Service Fund</u> | <u>Other Governmental Funds</u> | <u>Total</u> |
|---------------------------------------|-------------------------|----------------------------------|---|---------------------|
| Receivables: | | | | |
| Property taxes | \$ 2,367,024 | \$ 773,215 | \$ | \$ 3,140,239 |
| Receivables from other governments | 15,542,480 | | 2,334,311 | 17,876,791 |
| Other receivables | <u>805,547</u> | <u>289,264</u> | <u>17,519</u> | <u>1,112,330</u> |
| | 18,715,051 | 1,062,479 | 2,351,830 | 22,129,360 |
| Less: allowance for uncollectibles | <u>1,006,161</u> | <u>286,830</u> | <u></u> | <u>1,292,991</u> |
| Net total receivables | <u>\$17,708,890</u> | <u>\$ 775,649</u> | <u>\$ 2,351,830</u> | <u>\$20,836,369</u> |

Receivables/Payables from Other Governments

The District participates in a variety of federal and state programs from which it receives grants to, partially or fully, finance certain activities. In addition, the District receives entitlements from the State through the School Foundation and Per Capita Programs. All federal grants shown below are passed through the TEA or other state agency and are reported on the combined financial statements as either Receivable from or to Other Governments, as applicable.

Amounts due from federal, state, and local governments as of June 30, 2013 are summarized below.

| <u>Fund</u> | <u>State Entitlements</u> | <u>Federal Grants</u> | <u>State Grants and Other</u> | <u>Total</u> |
|---------------------------|-------------------------------|---------------------------|-----------------------------------|---------------------|
| Major Governmental Funds: | | | | |
| General fund | \$ 15,537,664 | \$ 4,816 | \$ | \$ 15,542,480 |
| Other funds | <u></u> | <u>2,244,609</u> | <u>89,702</u> | <u>2,334,311</u> |
| Total | <u>\$15,537,664</u> | <u>\$ 2,249,425</u> | <u>\$ 89,702</u> | <u>\$17,876,791</u> |

PEARLAND INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

TEN MONTHS ENDED JUNE 30, 2013

NOTE 5. RECEIVABLES, UNCOLLECTIBLE ACCOUNTS, DEFERRED INFLOWS OF RESOURCES, AND UNEARNED REVENUES (Continued)

Deferred Inflows of Resources/Unearned Revenue

Governmental funds defer the recognition of revenue in connection with receivables that are considered to be unavailable to liquidate liabilities of the current period and report these amounts as deferred inflows of resources. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned and report these amounts as a liability (unearned revenue).

As of June 30, 2013, the various components of deferred inflows of resources and unearned revenue reported in the governmental funds were as follows:

| | Deferred Inflow of Resources <u>(Unavailable)</u> | Unearned Revenue <u>Revenue</u> |
|--|--|---------------------------------------|
| Delinquent property taxes receivable (general fund) | \$ 966,382 | \$ |
| Delinquent property taxes receivable (debt service fund) | 343,745 | |
| Federal food commodities | | 38,075 |
| Advance Funding: | | |
| Federal grants | | 438,036 |
| State grants | | 20,910 |
| Other | | <u>10,956</u> |
| Totals | <u>\$ 1,310,127</u> | <u>\$ 507,977</u> |

NOTE 6. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund Receivables and Payables

Interfund balances at June 30, 2013 consisted of the following individual fund receivables and payables:

| <u>Fund</u> | <u>Receivable</u> | <u>Payable</u> |
|---|-------------------|----------------|
| General Fund: | | |
| Special Revenue Funds: | | |
| ESEA Title I, Part A Improving Basic Programs | \$ 302,530 | \$ |
| IDEA Part B Formula | 1,307,881 | |
| IDEA Part B Preschool | 19,413 | |
| Vocational Education Basic | 13,666 | |
| Title II Part A Teacher/Principal | 47,687 | |
| Title III Part A Language Education Program | 30,276 | |
| Title IV Part B 21 st Century | 63,852 | |
| Title IV Part A Summer School | 11,154 | |
| Accelerated Reading Program | 3,023 | |
| District Awards Teacher Excellence – Cycle 1 | <u>86,679</u> | |
| | 1,886,161 | <u>-0-</u> |

(continued)

PEARLAND INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

TEN MONTHS ENDED JUNE 30, 2013

NOTE 6. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS (Continued)

Interfund Receivables and Payables (Continued)

| <u>Fund</u> | <u>Receivable</u> | <u>Payable</u> |
|---|-----------------------------|-----------------------------|
| General Fund: | | |
| Debt Service fund | \$ | \$ 80,352 |
| Agency Funds: | | |
| Student activity | <u>29,354</u> | <u> </u> |
| Total General Fund | <u>1,915,515</u> | <u>80,352</u> |
| Special Revenue Funds: | | |
| General Fund: | | |
| ESEA Title I, Part A Improving Basic Programs | | 302,530 |
| IDEA Part B Formula | | 1,307,881 |
| IDEA Part B Preschool | | 19,413 |
| Vocational Education Basic | | 13,666 |
| Title II Part A Teacher/Principal | | 47,687 |
| Title III Part A Language Education Program | | 30,276 |
| Title IV Part B 21 st Century | | 63,852 |
| Title IV Part A Summer School | | 11,154 |
| Accelerated Reading Program | | 3,023 |
| District Awards Teacher Excellence – Cycle 1 | | <u>86,679</u> |
| | <u>-0-</u> | <u>1,886,161</u> |
| Debt Service Fund: | | |
| General fund | 80,352 | |
| Fiduciary Funds: | | |
| Agency Fund: | | |
| Student Activity Fund: | | |
| General Fund | <u> </u> | <u>29,354</u> |
| Total | <u>\$ 1,995,867</u> | <u>\$ 1,995,867</u> |

Interfund Transfers

Interfund transfers for the ten months ended June 30, 2013 consisted of the following individual fund transfers in and transfers out:

| <u>Transferring Fund</u> | <u>Receiving Fund</u> | <u>Amount</u> |
|--------------------------|-----------------------|---------------------|
| General fund | Capital Projects fund | \$ <u>3,717,700</u> |
| | | \$ <u>3,717,700</u> |

The Board of Trustees approved this transfer, as transfers of operational funds to cover planned expenditures.

PEARLAND INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

TEN MONTHS ENDED JUNE 30, 2013

NOTE 7. CAPITAL ASSETS

Changes in Capital Assets and Accumulated Depreciation

The following provides a summary of changes in capital assets and accumulated depreciation for the ten months ended June 30, 2013:

| | Balance September 1, 2012 | Additions | Transfers | Retirements | Balance June 30, 2013 |
|---|---------------------------------|---------------------|-------------------|---------------|-----------------------------|
| Non-Depreciated Capital Assets: | | | | | |
| Land | \$ 23,767,866 | \$ | \$ | \$ | \$ 23,767,866 |
| Construction in progress | <u>516,928</u> | <u>3,758,836</u> | <u>(409,942)</u> | <u></u> | <u>3,865,822</u> |
| Total non-depreciated | <u>24,284,794</u> | <u>3,758,836</u> | <u>(409,942)</u> | <u>-0-</u> | <u>27,633,688</u> |
| Depreciated Capital Assets: | | | | | |
| Buildings & improvements | \$ 376,737,271 | 79,157 | 409,942 | | 377,226,370 |
| Furniture, equipment & vehicles | <u>24,336,174</u> | <u>1,528,628</u> | <u></u> | <u></u> | <u>25,864,802</u> |
| Total depreciated | <u>401,073,445</u> | <u>1,607,785</u> | <u>409,942</u> | <u>-0-</u> | <u>403,091,172</u> |
| Total additions/transfers and retirements | | <u>\$ 5,366,621</u> | <u>\$ -0-</u> | <u>\$ -0-</u> | |
| Accumulated Depreciation: | | | | | |
| Buildings & improvements | 84,984,832 | \$ 7,131,092 | \$ | \$ | 92,115,924 |
| Furniture, equipment & vehicles | <u>16,003,464</u> | <u>1,667,729</u> | <u></u> | <u></u> | <u>17,671,193</u> |
| Total accumulated depreciation | <u>100,988,296</u> | <u>\$ 8,798,821</u> | <u>\$ -0-</u> | <u>\$ -0-</u> | <u>109,787,117</u> |
| Net depreciated assets | <u>300,085,149</u> | | | | <u>293,304,055</u> |
| Net capital assets | <u>\$ 324,369,943</u> | | | | <u>\$ 320,937,743</u> |

Depreciation Expense

In accordance with requirements of GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – For State and Local Governments*, depreciation expense of the governmental activities was charged to functions as follows:

| Data Control Codes | Function | Amount |
|-----------------------|---|--------------|
| 0011 | Instruction | \$ 5,252,221 |
| 0012 | Instructional resources and media services | 223,428 |
| 0021 | Instructional leadership | 92,569 |
| 0023 | School leadership | 11,156 |
| 0031 | Guidance, counseling, and evaluation services | 9,711 |
| 0032 | Social work services | 9,446 |

(continued)

PEARLAND INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

TEN MONTHS ENDED JUNE 30, 2013

NOTE 7. CAPITAL ASSETS (Continued)

Depreciation Expense (Continued)

| <u>Data Control Codes</u> | <u>Function</u> | <u>Amount</u> |
|-------------------------------|----------------------------------|---------------------|
| 0033 | Health services | \$ 7,613 |
| 0034 | Student transportation | 806,787 |
| 0035 | Food service | 513,944 |
| 0036 | Extracurricular activities | 1,038,809 |
| 0041 | General administration | 76,675 |
| 0051 | Plant maintenance and operations | 186,289 |
| 0052 | Security and monitoring services | 16,608 |
| 0053 | Data processing services | <u>553,565</u> |
| | Total depreciation expense | <u>\$ 8,798,821</u> |

NOTE 8. LONG-TERM DEBT

Loans

Short-term debts are accounted for through the appropriate fund, and consist of notes made in accordance with the provisions of the Texas Education Code. The District was not a party to any loan transactions during the ten months ended June 30, 2013.

General Obligation Bonds

Long-term debt includes par bonds, capital appreciation (deep discount) serial bonds, contractual obligations and loans. Contractual obligations are issued at parity with general obligation bonds, but carry a secondary revenue stream pledge; however, all certificates of obligation are tax, not revenue, supported. This debt, unlike other tax-supported debt, can be issued without a vote of the citizens. Bond premiums and discounts, and gains and losses on refunding are amortized using the straight-line method.

The following is a summary of the District's general obligation bonded debt as of June 30, 2013:

| <u>Date of Issue</u> | <u>Original Issue</u> | <u>Final Maturity</u> | <u>% Rates</u> | <u>Outstanding Balance</u> |
|----------------------|---------------------------|---------------------------|----------------|--------------------------------|
| 1997 | \$ 2,512,590 | 2018 | 5.800-5.900 | \$ 3,422,208 |
| 2001 | 22,500,000 | 2025 | 4.125-4.750 | 22,500,000 |
| 2003A | 14,600,000 | 2014 | 4.000 | 470,000 |
| 2004 | 10,000,000 | 2014 | 5.750 | 145,000 |
| 2005 | 27,115,000 | 2016 | 3.850-5.000 | 9,205,000 |
| 2005A | 109,640,000 | 2016 | 4.500-5.000 | 4,425,000 |
| 2007 | 111,665,000 | 2032 | 4.000-5.000 | 109,405,000 |
| 2007A | 31,535,000 | 2022 | 4.000-5.000 | 27,940,000 |
| 2011 | 8,740,000 | 2027 | 4.000 | 8,690,000 |
| 2012 | 62,845,000 | 2029 | 3.000-5.000 | 62,845,000 |
| 2013A | 15,490,000 | 2029 | 3.000-5.000 | 15,490,000 |
| 2013B | <u>38,155,000</u> | 2029 | 2.000-5.000 | <u>38,565,597</u> |
| Total | <u>\$ 454,797,590</u> | | | <u>\$ 303,102,805</u> |

PEARLAND INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

TEN MONTHS ENDED JUNE 30, 2013

NOTE 8. LONG-TERM DEBT (Continued)

General Obligation Bonds (Continued)

Presented below is a summary of general obligation bond requirements to maturity:

| <u>Year Ended June 30</u> | <u>Principal</u> | <u>Interest</u> | <u>Total Requirement</u> |
|-------------------------------|-----------------------|-----------------------|------------------------------|
| 2014 | \$ 10,415,000 | \$ 14,838,558 | \$ 25,253,558 |
| 2015 | 10,810,000 | 14,638,508 | 25,448,508 |
| 2016 | 11,165,000 | 14,228,137 | 25,393,137 |
| 2017 | 11,830,000 | 13,750,763 | 25,580,763 |
| 2018 | 12,295,000 | 13,270,662 | 25,565,662 |
| 2019-2023 | 70,685,000 | 57,918,338 | 128,603,338 |
| 2024-2028 | 88,345,000 | 37,563,187 | 125,908,187 |
| 2029-2032 | <u>88,090,000</u> | <u>10,078,613</u> | <u>98,168,613</u> |
| Totals | <u>\$ 303,635,000</u> | <u>\$ 176,286,766</u> | <u>\$ 479,921,766</u> |

The \$ 532,195 difference between the general obligation bonds outstanding at June 30, 2013 of \$ 303,102,805 and the general obligation bond principal requirements of \$ 303,635,000 represents the amount of capital appreciation bonds to be accreted as interest over the life of these bonds.

Bond indebtedness of the District is recorded in the governmental activities statement of net position, and current requirements for principal and interest expenditures are accounted for in the Debt Service Fund. Proceeds of long-term issues are reflected as "Other Resources" in the operating statement of the recipient fund.

There are limitations and restrictions contained in the general obligation bond indentures. The District is in compliance with all significant limitations and restrictions at June 30, 2013.

Debt Issuances And Defeased Debt

During the year ended August 31, 1998, the District issued \$ 39,275,000 in Unlimited Tax School Building and Refunding Bonds for construction of facilities and refunding of previously issued outstanding bonds, as follows: \$ 3,420,000 Unlimited Tax School Building and Refunding Bonds, Series 1993; \$ 15,820,000 Unlimited Tax School Building and Refunding Bonds, Series 1996; and \$ 15,270,000 Unlimited Tax School Building and Refunding Bonds, Series 1997. The District placed the proceeds of the refunding in an escrow fund. The escrow fund is irrevocably pledged to the payment of principal and interest on the bonds issued being refunded. The difference between the cash flow required to service the old debt and that required to service the new debt and complete the refunding was a decrease of \$ 12,874,368. The economic gain resulting from the transaction was \$ 5,160,598. The outstanding balance of these defeased bonds at June 30, 2013 was \$ 8,530,000 and the balance held in escrow was \$ 8,485,494.

PEARLAND INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

TEN MONTHS ENDED JUNE 30, 2013

NOTE 8. LONG-TERM DEBT (Continued)

Debt Issuances And Defeased Debt (Continued)

During the year ended August 31, 2007, the District issued \$ 111,680,000 in Unlimited Tax Schoolhouse and Refunding Bonds, Series 2007; \$ 31,045,000 for the refunding of previously issued outstanding bonds as follows: \$ 17,920,000 Unlimited Tax Schoolhouse Building, Series 2001C; \$ 8,550,000 Unlimited Tax Schoolhouse Building, Series 2002; \$ 3,095,000 Unlimited Tax Schoolhouse Building, Series 2003A; \$ 800,000 Unlimited Tax Schoolhouse Building, Series 2004. The District placed the proceeds of the refunding, in the amount of \$ 31,599,818, in an escrow fund. The escrow fund is irrevocably pledged to the payment of principal and interest on the bonds issued being refunded. The difference between the cash flow required to service the old debt and that required to service the new debt and complete the refunding was an increase of \$ 4,912,708. The economic gain resulting from the transaction was \$ 482,084. The outstanding balance of these defeased bonds at June 30, 2013 was \$ 3,545,000 and the balance held in escrow was \$ 3,497,148.

During the year ended August 31, 2011, the District entered into a fixed rate conversion of \$ 22,500,000 Unlimited Tax Schoolhouse Bonds, Series 2001B. The District paid off the previous \$ 22,500,000 Unlimited Tax Schoolhouse Bonds, Series 2001B adjustable rate bonds with the proceeds from the fixed rate conversion. The bonds paid off with the conversion carried adjustable interest rates from 4.50% to 5.88%. The fixed rate conversion results in the District receiving fixed interest rates from 4.125% to 4.750%. The difference between the cash flow required to service the old debt and that required to service the new debt and complete the conversion was an increase of \$ 1,870,050. The economic gain resulting from the transaction was \$ 1,428,707. The outstanding balance of the fixed rate bonds at June 30, 2013 was \$ 22,500,000.

During the year ended August 31, 2012, the District issued \$ 8,740,000 in Unlimited Tax Refunding Bonds, Series 2011; \$ 8,790,000 for the refunding of previously issued outstanding bonds as follows: \$ 6,110,000 Unlimited Tax Schoolhouse Building, Series 2003A; and \$ 2,680,000 Unlimited Tax Schoolhouse Building, Series 2004. The District placed the proceeds of the refunding, in the amount of \$ 9,747,238, in an escrow fund. The escrow fund is irrevocably pledged to the payment of principal and interest on the bonds issued being refunded. The difference between the cash flow required to service the old debt and that required to service the new debt and complete the refunding was a decrease of \$ 806,509. The economic gain resulting from the transaction was \$ 660,444. The outstanding balance of these defeased bonds at June 30, 2013 was \$ 8,790,000 and the balance held in escrow was \$ 9,170,735.

During the year ended August 31, 2012, the District issued \$ 62,845,000 in Unlimited Tax Refunding Bonds, Series 2012, \$ 65,040,000 for the refunding of previously issued outstanding bonds as follows: \$ 950,000 Unlimited Tax Schoolhouse Building, Series 2003A; \$ 5,445,000 Unlimited Tax Schoolhouse Building, Series 2004; and \$ 58,645,000 Unlimited Tax Schoolhouse and Refunding Bonds, Series 2005A. The District placed the proceeds of the refunding, in the amount of \$ 73,584,594, in an escrow fund. The escrow fund is irrevocably pledged to the payment of principal and interest on the bonds issued being refunded. The difference between the cash flow required to service the old debt and that required to service the new debt and complete the refunding was a decrease of \$ 4,142,007. The economic gain resulting from the transaction was \$ 3,299,499. The outstanding balance of these defeased bonds at June 30, 2013 was \$ 65,040,000 and the balance held in escrow was \$ 69,739,827.

PEARLAND INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

TEN MONTHS ENDED JUNE 30, 2013

NOTE 8. LONG-TERM DEBT (Continued)

Debt Issuances and Defeased Debt (Continued)

During the ten months ended June 30, 2013, the District issued \$ 15,490,000 in Unlimited Tax Refunding Bonds, Series 2013A for the refunding of \$ 17,020,000 previously issued bonds as follows: \$ 3,370,000 in Unlimited Tax Schoolhouse Building, Series 2001C; \$ 1,000,000 Unlimited Tax Schoolhouse Building, Series 2003A; \$ 12,100,000 Unlimited Tax Schoolhouse and Refunding Bonds, Series 2005A, and \$550,000 in Unlimited Tax Schoolhouse and Refunding Bonds, Series 2007. The District placed the proceeds of the refunding, in the amount of \$ 18,246,495, in an escrow fund. The escrow fund is irrevocably pledged to the payment of principal and interest on the bonds issued being refunded. The difference between the cash flow required to service the old debt and that required to service the new debt and complete the refunding was a decrease of \$ 1,031,258. The outstanding balance of these defeased bonds at June 30, 2013 was \$ 13,650,000 and the balance held in escrow was \$ 14,874,380.

During the ten months ended June 30, 2013, the District issued \$ 38,155,000 in Unlimited Tax Schoolhouse and Refunding Bonds, Series 2013B, \$ 38,155,000 for the refunding of previously issued outstanding bonds as follows: \$ 6,950,000 Unlimited Tax Refunding Bonds, Series 2005; and \$ 27,090,000 Unlimited Tax Schoolhouse and Refunding Bonds, Series 2005A. The District placed the proceeds of the refunding, in the amount of \$ 41,768,121, in an escrow fund. The escrow fund is irrevocably pledged to the payment of principal and interest on the bonds issued being refunded. The difference between the cash flow required to service the old debt and that required to service the new debt and complete the refunding was an increase of \$ 4,911,897. The economic gain resulting from the transaction was \$ 3,983,098. The outstanding balance of these defeased bonds at June 30, 2013 was \$ 38,155,000 and the balance held in escrow was \$ 41,775,847.

Changes in Long-Term Liabilities

Long-term liability activity for the governmental activities for the ten months ended June 30, 2013 was as follows:

| | <u>Balance</u> 09-01-12 | <u>Additions</u> | <u>Reductions</u> | <u>Balance</u> 06-30-13 | <u>Due</u> <u>Within</u> <u>One Year</u> |
|--|----------------------------|----------------------|----------------------|----------------------------|--|
| Long-Term Debt: | | | | | |
| General obligation bonds | \$ 314,085,695 | \$ 54,252,110 | \$ 65,235,000 | \$ 303,102,805 | \$ 11,227,458 |
| Components of Long-Term Debt: | | | | | |
| Premium on general obligation bonds payable | 14,960,505 | 5,738,471 | 2,290,229 | 18,408,747 | 1,266,740 |
| Accrued interest payable | <u>625,578</u> | <u>5,118,498</u> | <u>625,578</u> | <u>5,118,498</u> | <u>5,118,498</u> |
| | <u>\$ 329,671,778</u> | <u>\$ 65,109,079</u> | <u>\$ 68,150,807</u> | <u>\$ 326,630,050</u> | <u>\$ 17,612,696</u> |

PEARLAND INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

TEN MONTHS ENDED JUNE 30, 2013

NOTE 9. LEASES

Operating Leases

Commitments under operating lease (non-capital) agreements for copier equipment, telephone equipment, security systems, and postage machines provide for minimum future rental payments as of June 30, 2013 as follows:

| <u>Year Ended</u> <u>June 30</u> | <u>Amount</u> |
|-------------------------------------|---------------------|
| 2014 | \$ 733,085 |
| 2015 | 526,647 |
| 2016 | 411,843 |
| 2017 | 334,693 |
| 2018 | <u>195,033</u> |
| Total minimum rentals | <u>\$ 2,201,301</u> |

Rental expenditures on the above-mentioned equipment for the ten months ended June 30, 2013 were \$ 866,083.

NOTE 10. PENSION PLAN OBLIGATIONS

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

Funding Policy - State law provides a state contribution rate of 6.0% for fiscal year 2011-2012 and 2012-2013. State law further provides a member contribution rate of 6.4% for fiscal years 2010-2012. In certain instances, the reporting District is required to make all or a portion of the state's 6.0% contribution. Contribution requirements are not actuarially determined but are legally established each biennium pursuant to the following state funding policy: (1) The state constitution requires the legislature to establish a member contribution rate of not less than 6.0% of the member's annual compensation and a state contribution rate of not less than 6.0% and not more than 10.0% of the aggregate annual compensation of all members of the system during that fiscal year; (2) A state statute prohibits benefit improvements or contribution reductions if, as a result of the particular action, the time required to amortize TRS's unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action.

PEARLAND INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

TEN MONTHS ENDED JUNE 30, 2013

NOTE 10. PENSION PLAN OBLIGATIONS (Continued)

Types of staff members covered. All staff members who are employed for one-half or more of the standard work load and who are not exempted from membership under Texas Government Code, Title 8, Subtitle C, Section 822.002 are covered. Service retirement is as follows:

| | |
|---------|--|
| Normal | any combination of age plus years of credited service which equals or exceeds 80 |
| | age 65 with 5 years of service |
| Reduced | age 55 with at least 5 years of credited service |
| | any age below 50 with 30 or more years of credited service |

A member is fully vested after 5 years of creditable service and entitled to any benefit for which eligibility requirements have been met.

Contributions made by the State on behalf of the District are recorded in the financial statements as both revenue and expense. State contributions to TRS made on behalf of the District's employees for the ten months ended June 30, 2013 and the years ended August 31, 2012 and 2011 were as follows:

| | <u>2013</u> | <u>2012</u> | <u>2011</u> |
|----------------------------|---------------|---------------|---------------|
| District payroll | \$ 81,876,805 | \$ 93,546,692 | \$ 95,763,334 |
| District TRS payroll | \$ 78,101,254 | \$ 89,421,542 | \$ 90,633,527 |
| District contributions | \$ 427,548 | \$ 491,885 | \$ 499,459 |
| Federal contributions | \$ 89,566 | \$ 100,762 | \$ 120,071 |
| State contributions | \$ 4,243,104 | \$ 4,975,604 | \$ 4,567,930 |
| Medicare part D | \$ 358,170 | \$ 217,412 | \$ 236,935 |
| State contribution rate | 6.000% | 6.000% | 6.644% |
| Employee contributions | \$ 4,998,480 | \$ 5,723,313 | \$ 5,812,182 |
| Employee contribution rate | 6.400% | 6.400% | 6.400% |

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 web-site, www.trs.state.tx.us, under the TRS Publications heading.

PEARLAND INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

TEN MONTHS ENDED JUNE 30, 2013

NOTE 11. GENERAL FUND FEDERAL SOURCE REVENUES

Following is a schedule of federal source revenue recorded in the General Fund.

| <u>Program or Source</u> | <u>CFDA Number</u> | <u>Total</u> |
|--|------------------------|-------------------|
| Direct Costs: | | |
| School Health and Related Services (SHARS) | --- | \$ 377,665 |
| Medicaid Administrative Claiming Program (MAC) | 93.778 | 5,708 |
| ROTC Salary Aid | 12.000 | <u>117,261</u> |
| Total direct | | <u>500,634</u> |
| Indirect Costs: | | |
| ESEA, Title I, Part A - Improving Basic Programs | 84.010 | 17,127 |
| Vocational Education - Basic | 84.048 | 1,848 |
| Title II, Part A - Teacher and Principal Training and Recruiting | 84.367 | 3,036 |
| Title III, Part A - English Language and Language Enhancement | 84.365 | <u>2,210</u> |
| Total indirect | | <u>24,221</u> |
| Total | | <u>\$ 524,855</u> |

The School Health and Related Services (SHARS) funds are not considered federal financial assistance for inclusion in the Schedule of Federal Financial Assistance.

NOTE 12. LOCAL AND INTERMEDIATE REVENUES

During the ten months ended June 30, 2013, local and intermediate revenues for governmental funds consisted of the following:

| | <u>General Fund</u> | <u>Debt Service Fund</u> | <u>Other Governmental Funds</u> | <u>Total</u> |
|--|-------------------------|----------------------------------|---|---------------------|
| Property Taxes | \$58,142,512 | \$21,206,139 | \$ | \$79,348,651 |
| Food sales | | | 4,766,237 | 4,766,237 |
| Investment income | 58,803 | 10,660 | 6,933 | 76,396 |
| Penalties, interest and other tax related income | 403,624 | 135,965 | | 539,589 |
| Other tuition and fees from patrons | 234,071 | | | 234,071 |
| Co-curricular income | 349,914 | | 30,473 | 380,387 |
| Rent | 351,630 | | | 351,630 |
| Other | <u>114,522</u> | | <u>1,780</u> | <u>116,302</u> |
| Total | <u>\$59,655,076</u> | <u>\$21,352,764</u> | <u>\$ 4,805,423</u> | <u>\$85,813,263</u> |

PEARLAND INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

TEN MONTHS ENDED JUNE 30, 2013

NOTE 13. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the ten months ended June 30, 2013, the district purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year, and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

NOTE 14. SELF-INSURED WORKERS' COMPENSATION

Beginning September 1, 1991, the District established its self-funding Workers' Compensation program. The accrued liability for the Workers' Compensation self-insurance program is projected to be \$ 150,039 as of June 30, 2013. The District claim history does not allow for a credible projection of loss adjustment expenses (LAE), data from other self-insured and insurance entities suggests costs for these items may be in the neighborhood of 5% of the liability for losses. As of September 1, 2012, the District chose to switch to a fully insured workers' compensation program with Texas Mutual Insurance Company. The above liability is from claims before September 1, 2012 from the self-insured program which have not been closed out as of June 30, 2013.

This liability reported in the fund at June 30, 2013, 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 indicates that it is probable that a liability has been incurred as of the date of the financial statements, and the amount of loss can be reasonably estimated. Because actual claim liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing the liability does not result necessarily in an exact amount.

Changes in the workers' compensation claim liability amounts in fiscal 2011-2012 (year-ended) and 2012-2013 (ten months ended) are represented below:

| | <u>Beginning of Fiscal-Period Liability</u> | <u>Current-Period Claims and Changes in Estimates</u> | <u>Claim Payments</u> | <u>Balance at Fiscal Period-End</u> |
|---|---|---|---------------------------|---|
| 2011-2012 Year-Ended Workers' Compensation | \$ 366,929 | \$ 542,533 | \$ 592,132 | \$ 317,330 |
| 2012-2013 Ten Months Ended Workers' Compensation | 317,330 | 123,700 | 290,991 | 150,039 |

PEARLAND INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

TEN MONTHS ENDED JUNE 30, 2013

NOTE 15. LITIGATION AND CONTINGENCIES

The District participates in numerous state and Federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, if any, refunds of any money received may be required and the collect ability of any related receivable at June 30, 2013 may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

NOTE 16. JOINT VENTURED-SHARED SERVICE ARRANGEMENTS

The District participates in a shared services arrangement for Brazoria County Juvenile Justice Alternative Education Program with six other school districts. Although a percentage of the activity of the shared services arrangement is attributable to the District's participation, the District does not account for revenues or expenditures in this program and does not disclose them in these financial statements. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, Brazoria County, 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 Pearland Independent School District. The fiscal agent manager is responsible for all financial activities of the shared services arrangement. The expenditures attributable to the District's participation totaled \$ 20,100 and were coded to 6223 Student tuition - other than to public schools.

The District participates in a shared services arrangement with Deer Park Independent School District for the supply of electricity and ancillary services to all facilities of the District. Deer Park Independent School District is the fiscal agent. All services are provided by the fiscal agent for the supply of electricity, the negotiation to purchase electricity, ancillary services, or other energy related products and services, and to encourage efficiency of operation and conservation on behalf of the buyer. 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, Deer Park ISD, nor does the District have a net equity interest in the fiscal agent. The fiscal agent is neither accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to Pearland Independent School District. The fiscal agent manager is responsible for all financial activities of the shared services arrangement. The expenditures attributable to the District's participation totaled \$ 4,082,692 and were coded to 6492 payments to fiscal agents.

NOTE 17. EVALUATION OF SUBSEQUENT EVENTS

The District has evaluated subsequent events through October 31, 2013, the date which the financial statements were available to be issued.

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REQUIRED SUPPLEMENTARY INFORMATION

PEARLAND INDEPENDENT SCHOOL DISTRICT

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL FUND
TEN MONTHS ENDED JUNE 30, 2013**

**EXHIBIT G-1
Page 1 of 1**

| Data Control Codes | | General Fund | | | Variance with Final Budget Positive (Negative) |
|---------------------------------|---|----------------------|----------------------|----------------------|--|
| | | Budgeted Amounts | | Actual | |
| | | Original | Final | | |
| REVENUES: | | | | | |
| 5700 | Local and intermediate sources | \$ 58,292,182 | \$ 58,292,182 | \$ 59,655,076 | \$ 1,362,894 |
| 5800 | State program revenues | 67,157,696 | 67,157,696 | 65,886,326 | (1,271,370) |
| 5900 | Federal program revenues | <u>277,000</u> | <u>277,000</u> | <u>524,855</u> | <u>247,855</u> |
| 5020 | Total revenues | <u>125,726,878</u> | <u>125,726,878</u> | <u>126,066,257</u> | <u>339,379</u> |
| EXPENDITURES: | | | | | |
| Current: | | | | | |
| 0011 | Instruction | 73,130,830 | 74,210,865 | 67,168,041 | 7,042,824 |
| 0012 | Instructional resources and media services | 1,419,932 | 1,634,727 | 1,370,027 | 264,700 |
| 0013 | Curriculum and staff development | 3,102,544 | 3,300,544 | 2,843,269 | 457,275 |
| 0021 | Instructional leadership | 1,721,101 | 1,571,101 | 1,268,798 | 302,303 |
| 0023 | School leadership | 8,347,605 | 8,849,059 | 7,763,885 | 1,085,174 |
| 0031 | Guidance, counseling, and evaluation services | 4,154,328 | 4,084,490 | 3,700,061 | 384,429 |
| 0032 | Social work services | 331,099 | 306,099 | 271,079 | 35,020 |
| 0033 | Health services | 1,227,489 | 1,253,149 | 1,115,310 | 137,839 |
| 0034 | Student transportation | 6,618,457 | 6,618,457 | 5,434,623 | 1,183,834 |
| 0036 | Extracurricular activities | 3,612,582 | 3,592,582 | 3,265,010 | 327,572 |
| 0041 | General administration | 3,067,896 | 3,067,896 | 2,781,871 | 286,025 |
| 0051 | Plant maintenance and operations | 12,796,885 | 13,629,885 | 11,432,716 | 2,197,169 |
| 0052 | Security and monitoring services | 1,426,853 | 1,585,853 | 1,418,875 | 166,978 |
| 0053 | Data processing services | 2,323,545 | 5,925,626 | 3,587,104 | 2,338,522 |
| 0061 | Community services | 6,408 | 6,408 | 1,352 | 5,056 |
| 0080 | Capital outlay | | 1,819,397 | 66,440 | 1,752,957 |
| 0093 | Payments related to shared services agreements | 4,822,563 | 4,822,563 | 4,082,692 | 739,871 |
| 0095 | Payments to Juvenile Justice Alternative Education Programs | 123,672 | 123,672 | 20,100 | 103,572 |
| 0099 | Other intergovernmental charges | <u>498,420</u> | <u>498,420</u> | <u>408,183</u> | <u>90,237</u> |
| 6030 | Total expenditures | <u>128,732,209</u> | <u>136,900,793</u> | <u>117,999,436</u> | <u>18,901,357</u> |
| 1100 | Excess (deficiency) of revenues over expenditures | (3,005,331) | (11,173,915) | 8,066,821 | 19,240,736 |
| OTHER FINANCING SOURCES (USES): | | | | | |
| 8911 | Transfers out | | (3,717,700) | (3,717,700) | -0- |
| | Total other financing sources (uses) | <u>-0-</u> | <u>(3,717,700)</u> | <u>(3,717,700)</u> | <u>-0-</u> |
| 1200 | Net change in fund balances | (3,005,331) | (14,891,615) | 4,349,121 | 19,240,736 |
| 0100 | Fund balances – beginning | <u>39,967,698</u> | <u>39,967,698</u> | <u>39,967,698</u> | <u>-0-</u> |
| 3000 | Fund balances – ending | <u>\$ 36,962,367</u> | <u>\$ 25,076,083</u> | <u>\$ 44,316,819</u> | <u>\$ 19,240,736</u> |

OTHER SUPPLEMENTARY INFORMATION

PEARLAND INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2013

| Data Control Codes | | Special | | | | |
|--------------------|---|--|----------------------------------|------------------------------------|---|---|
| | | 211 ESEA Title I Part A Improving Basic Program | 224 IDEA Part B Formula | 225 IDEA Part B Preschool | 240 National School Lunch and Breakfast Program | 244 Vocational Education Basic |
| | ASSETS AND OUTFLOWS OF RESOURCES | | | | | |
| | Assets: | | | | | |
| 1110 | Cash and cash equivalents | \$ | \$ | \$ | \$ 3,335,273 | \$ |
| 1240 | Receivables from other governments | 454,479 | 1,483,191 | 26,085 | 63,171 | 13,666 |
| 1290 | Other receivables | | | | 17,519 | |
| 1300 | Inventories | | | | 226,429 | |
| 1000 | Total assets | <u>454,479</u> | <u>1,483,191</u> | <u>26,085</u> | <u>3,642,392</u> | <u>13,666</u> |
| | Deferred Outflow of Resources: | | | | | |
| 1700 | Deferred outflows | | | | | |
| | Total deferred outflows of resources | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> |
| 1000A | Total assets and deferred outflows of resources | <u>\$ 454,479</u> | <u>\$ 1,483,191</u> | <u>\$ 26,085</u> | <u>\$ 3,642,392</u> | <u>\$ 13,666</u> |
| | LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES: | | | | | |
| | Liabilities: | | | | | |
| 2110 | Accounts payable | \$ 6,321 | \$ 14,293 | \$ | \$ 78,739 | \$ |
| 2160 | Accrued wages payable | 145,628 | 161,017 | 6,672 | 351,679 | |
| 2170 | Due to other funds | 302,530 | 1,307,881 | 19,413 | | 13,666 |
| 2300 | Unearned revenue | | | | 38,075 | |
| 2000 | Total liabilities | <u>454,479</u> | <u>1,483,191</u> | <u>26,085</u> | <u>468,493</u> | <u>13,666</u> |
| | Deferred Inflows of Resources: | | | | | |
| 1700 | Deferred inflows | | | | | |
| | Total deferred inflows of resources | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> |
| | Fund Balances: | | | | | |
| 3410 | Non-spendable - Inventories | | | | 226,429 | |
| 3450 | Restricted - grant funds | | | | 2,947,470 | |
| 3470 | Restricted - capital acquisitions and contractual obligations | | | | | |
| 3490 | Restricted - other | | | | | |
| 3600 | Unassigned | | | | | |
| 3000 | Total fund balances | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> | <u>3,173,899</u> | <u>-0-</u> |
| 4000 | Total liabilities, deferred inflows of resources, and fund balances | <u>\$ 454,479</u> | <u>\$ 1,483,191</u> | <u>\$ 26,085</u> | <u>\$ 3,642,392</u> | <u>\$ 13,666</u> |

Revenue Funds

| 255 | 263 | 265 | 289 | 383 | 397 | 404 | 410 |
|---|---|---------------------------------------|--|--------------------------------------|---------------------------|-----------------------------------|--|
| Title II Part A Teacher/ Principal | Title III Part A Language Education Program | Title IV Part B 21st Century | Title VI Part A Summer School | Professional Staff Development | AP/IB Campus Awards | Accelerated Reading Program | Instructional Materials Allocation |
| \$ 65,809 | \$ 52,330 | \$ 85,878 | \$ 11,154 | \$ 20,910 | \$ 8,994 | \$ 3,023 | \$ 94,958 |
| <u>65,809</u> | <u>52,330</u> | <u>85,878</u> | <u>11,154</u> | <u>20,910</u> | <u>8,994</u> | <u>3,023</u> | <u>94,958</u> |
| <u>-0-</u> | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> |
| <u>\$ 65,809</u> | <u>\$ 52,330</u> | <u>\$ 85,878</u> | <u>\$ 11,154</u> | <u>\$ 20,910</u> | <u>\$ 8,994</u> | <u>\$ 3,023</u> | <u>\$ 94,958</u> |
| \$ 1,435 16,687 47,687 | \$ 22,054 30,276 | \$ 1,471 20,555 63,852 | \$ 11,154 | \$ 20,910 | \$ | \$ 3,023 | \$ 9,330 |
| <u>65,809</u> | <u>52,330</u> | <u>85,878</u> | <u>11,154</u> | <u>20,910</u> | <u>-0-</u> | <u>3,023</u> | <u>9,330</u> |
| <u>-0-</u> | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> |
| | | | | | 8,994 | | 85,628 |
| <u>-0-</u> | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> | <u>8,994</u> | <u>-0-</u> | <u>85,628</u> |
| <u>\$ 65,809</u> | <u>\$ 52,330</u> | <u>\$ 85,878</u> | <u>\$ 11,154</u> | <u>\$ 20,910</u> | <u>\$ 8,994</u> | <u>\$ 3,023</u> | <u>\$ 94,958</u> |

PEARLAND INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2013

| Data Control Codes | | Special Revenue Funds | | | Capital Project Fund | |
|--------------------|---|-----------------------|--|-----------------------------------|----------------------|-----------------------|
| | | 429 | 429 | 483 | 60 | |
| | | Read to Succeed | District Awards Teacher Excellence Cycle 1 | Northern Brazoria County Alliance | Total | Capital Projects Fund |
| | ASSETS AND OUTFLOWS OF RESOURCES | | | | | |
| | Assets: | | | | | |
| 1110 | Cash and cash equivalents | \$ | \$ | \$ 95 | \$ 3,471,384 | \$ 2,116,628 |
| 1240 | Receivables from other governments | | 86,679 | | 2,334,311 | |
| 1290 | Other receivables | | | | 17,519 | |
| 1300 | Inventories | | | | 226,429 | |
| | | <u>-0-</u> | <u>86,679</u> | <u>95</u> | <u>6,049,643</u> | <u>2,116,628</u> |
| | DEFERRED OUTFLOWS OF RESOURCES | | | | | |
| 1700 | Deferred outflows | | | | -0- | |
| | Total deferred outflows of resources | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> |
| 1000A | Total assets and deferred outflows of resources | <u>\$ -0-</u> | <u>\$ 86,679</u> | <u>\$ 95</u> | <u>\$ 6,049,643</u> | <u>\$ 2,116,628</u> |
| | LIABILITIES AND FUND BALANCES: | | | | | |
| | Liabilities: | | | | | |
| 2110 | Accounts payable | \$ | \$ | \$ | \$ 111,589 | \$ 955,789 |
| 2160 | Accrued wages payable | | | | 724,292 | |
| 2170 | Due to other funds | | 86,679 | | 1,886,161 | |
| 2300 | Unearned revenue | | | | 58,985 | |
| 2000 | Total liabilities | <u>-0-</u> | <u>86,679</u> | <u>-0-</u> | <u>2,781,027</u> | <u>955,789</u> |
| | Deferred Inflows of Resources: | | | | | |
| 1700 | Deferred inflows | | | | -0- | |
| | Total deferred inflows of resources | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> |
| | Fund Balances: | | | | | |
| 3410 | Non-spendable - Inventories | | | | 226,429 | |
| 3450 | Restricted – grant funds | | | | 3,042,092 | |
| 3470 | Restricted – capital acquisitions and contractual obligations | | | | -0- | 1,160,839 |
| 3490 | Restricted – other | | | 95 | 95 | |
| 3600 | Unassigned | | | | -0- | |
| 3000 | Total fund balances | <u>-0-</u> | <u>-0-</u> | <u>95</u> | <u>3,268,616</u> | <u>1,160,839</u> |
| 4000 | Total liabilities, deferred inflows of resources, and fund balances | <u>\$ -0-</u> | <u>\$ 86,679</u> | <u>\$ 95</u> | <u>\$ 6,049,643</u> | <u>\$ 2,116,628</u> |

Total
Nonmajor
Governmental
Funds

\$ 5,588,012
2,334,311
17,519
226,429
8,166,271

-0-

-0-

\$ 8,166,271

\$ 1,067,378
724,292
1,886,161
58,985
3,736,816

-0-

-0-

226,429
3,042,092

1,160,839
95
-0-

4,429,455

\$ 8,166,271

PEARLAND INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
TEN MONTHS ENDED JUNE 30, 2013

| Data Control Codes | | Special | | | | |
|---------------------------------|---|--|----------------------------------|------------------------------------|---|---|
| | | 211 ESEA Title I Part A Improving Basic Program | 224 IDEA Part B Formula | 225 IDEA Part B Preschool | 240 National School Lunch and Breakfast Program | 244 Vocational Education Basic |
| REVENUES: | | | | | | |
| 5700 | Local and intermediate sources | \$ | \$ | \$ | \$ 4,769,592 | \$ |
| 5800 | State program revenues | | | | 149,793 | |
| 5900 | Federal program revenues | <u>808,658</u> | <u>2,839,211</u> | <u>48,567</u> | <u>3,499,264</u> | <u>135,526</u> |
| 5020 | Total revenues | <u>808,658</u> | <u>2,839,211</u> | <u>48,567</u> | <u>8,418,649</u> | <u>135,526</u> |
| EXPENDITURES: | | | | | | |
| Current: | | | | | | |
| 0011 | Instruction | 740,478 | 1,727,174 | 48,567 | | 129,129 |
| 0012 | Instructional resources and media services | | | | | |
| 0013 | Curriculum and staff development | 60,003 | 112,271 | | | 522 |
| 0021 | Instructional leadership | | 169,336 | | | 826 |
| 0023 | School leadership | | | | | |
| 0031 | Guidance, counseling and evaluation services | | 793,598 | | | 5,049 |
| 0032 | Social work services | 2,269 | | | | |
| 0033 | Health services | 1,938 | 3,217 | | | |
| 0034 | Student transportation | | 32,425 | | | |
| 0035 | Food service | | | | 7,522,486 | |
| 0036 | Extracurricular activities | | 1,190 | | | |
| 0051 | Plant maintenance and operations | | | | | |
| 0053 | Data processing services | | | | | |
| 0061 | Community services | 3,970 | | | | |
| 0081 | Capital outlay | | | | | |
| 6030 | Total expenditures | <u>808,658</u> | <u>2,839,211</u> | <u>48,567</u> | <u>7,522,486</u> | <u>135,526</u> |
| 1100 | Excess (deficiency) of revenues over expenditures | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> | <u>896,163</u> | <u>-0-</u> |
| OTHER FINANCING SOURCES (USES): | | | | | | |
| 7915 | Transfers in | | | | | |
| | Total other financing sources and (uses) | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> |
| 1200 | Net changes in fund balances | -0- | -0- | -0- | 896,163 | -0- |
| 0100 | Fund balances - beginning | | | | <u>2,277,736</u> | |
| 3000 | Fund balances - ending | <u>\$ -0-</u> | <u>\$ -0-</u> | <u>\$ -0-</u> | <u>\$ 3,173,899</u> | <u>\$ -0-</u> |

| Revenue Funds | | | | | | | |
|---|---|---------------------------------------|--|--------------------------------------|---------------------------|-----------------------------------|--|
| 255 | 263 | 265 | 289 | 383 | 397 | 404 | 410 |
| Title II Part A Teacher/ Principal | Title III Part A Language Education Program | Title IV Part B 21st Century | Title VI Part A Summer School | Professional Staff Development | AP/IB Campus Awards | Accelerated Reading Program | Instructional Materials Allocation |
| \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ 1,780 |
| | | | | | | 35,648 | 761,523 |
| <u>143,381</u> | <u>110,526</u> | <u>287,279</u> | <u>11,154</u> | | | | |
| <u>143,381</u> | <u>110,526</u> | <u>287,279</u> | <u>11,154</u> | <u>-0-</u> | <u>-0-</u> | <u>35,648</u> | <u>763,303</u> |
| 56,735 | 97,892 | 195,902 | 11,154 | | | 35,648 | 602,354 |
| 86,646 | 12,634 | | | | | | 19,359 |
| | | 90,864 | | | | | |
| | | | | | | | 226,286 |
| | | 513 | | | | | |
| <u>143,381</u> | <u>110,526</u> | <u>287,279</u> | <u>11,154</u> | <u>-0-</u> | <u>-0-</u> | <u>35,648</u> | <u>847,999</u> |
| <u>-0-</u> | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> | <u>(84,696)</u> |
| <u>-0-</u> | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> |
| <u>-0-</u> | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> | <u>(84,696)</u> |
| | | | | | 8,994 | | 170,324 |
| <u>\$ -0-</u> | <u>\$ -0-</u> | <u>\$ -0-</u> | <u>\$ -0-</u> | <u>\$ -0-</u> | <u>\$ 8,994</u> | <u>\$ -0-</u> | <u>\$ 85,628</u> |

PEARLAND INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
TEN MONTHS ENDED JUNE 30, 2013

| Data Control Codes | | Special Revenue Funds | | | Capital Project Fund | |
|--------------------|---|-----------------------|--|-----------------------------------|----------------------|-----------------------|
| | | 429 | 429 | 483 | 60 | |
| | | Read to Succeed | District Awards Teacher Excellence Cycle 1 | Northern Brazoria County Alliance | Total | Capital Projects Fund |
| | REVENUES: | | | | | |
| 5700 | Local and intermediate sources | \$ | \$ | \$ 30,473 | \$ 4,801,845 | \$ 3,578 |
| 5800 | State program revenues | 46 | 772,263 | | 1,719,273 | |
| 5900 | Federal program revenues | | | | 7,883,566 | |
| 5020 | Total revenues | 46 | 772,263 | 30,473 | 14,404,684 | 3,578 |
| | EXPENDITURES: | | | | | |
| | Current: | | | | | |
| 0011 | Instruction | | 676,142 | | 4,321,175 | 106,248 |
| 0012 | Instructional resources and media services | 46 | | | 46 | |
| 0013 | Curriculum and staff development | | 96,121 | | 387,556 | |
| 0021 | Instructional leadership | | | | 170,162 | |
| 0023 | School leadership | | | | 90,864 | |
| 0031 | Guidance, counseling and evaluation services | | | | 798,647 | |
| 0032 | Social work services | | | | 2,269 | |
| 0033 | Health services | | | | 5,155 | |
| 0034 | Student transportation | | | | 32,425 | |
| 0035 | Food service | | | | 7,522,486 | |
| 0036 | Extracurricular activities | | | | 1,190 | 29,814 |
| 0051 | Plant maintenance and operations | | | | -0- | 411,412 |
| 0053 | Data processing services | | | | 226,286 | 1,413,994 |
| 0061 | Community services | | | 27,025 | 31,508 | |
| 0081 | Capital outlay | | | | -0- | 3,333,167 |
| 6030 | Total expenditures | 46 | 772,263 | 27,025 | 13,589,769 | 5,294,635 |
| 1100 | Excess (deficiency) of revenues over expenditures | -0- | -0- | 3,448 | 814,915 | (5,291,057) |
| | OTHER FINANCING SOURCES (USES): | | | | | |
| 7915 | Transfers in | | | | | 3,717,700 |
| | Total other financing sources and (uses) | -0- | -0- | -0- | -0- | 3,717,700 |
| 1200 | Net changes in fund balances | -0- | -0- | 3,448 | 814,915 | (1,573,357) |
| 0100 | Fund balances - beginning | | | (3,353) | 2,453,701 | 2,734,196 |
| 3000 | Fund balances - ending | \$ -0- | \$ -0- | \$ 95 | \$ 3,268,616 | \$ 1,160,839 |

Total
Nonmajor
Governmental
Fund

\$ 4,805,423
1,719,273
7,883,566

14,408,262

4,427,423
46
387,556
170,162
90,864
798,647
2,269
5,155
32,425
7,522,486
31,004
411,412
1,640,280
31,508
3,333,167

18,884,404

(4,476,142)

3,717,700

3,717,700

(758,442)

5,187,897

\$ 4,429,455

PEARLAND INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DELINQUENT TAXES RECEIVABLE
TEN MONTHS ENDED JUNE 30, 2013

| Last Ten Periods Ended August 31, / June 30, | 1 | | 2 | | 3 | 10 |
|---|-------------|--------------|---------------|--|--|--|
| | Tax Rates | | | | Assessed/Appraised Value for School Tax Purposes | Beginning Balance September 1, 2012 |
| | Maintenance | Debt Service | | | | |
| 2004 and Prior | \$ ----- | \$ ----- | \$ ----- | | \$ ----- | \$ 366,001 |
| 2005 | 1.5000 | 0.2922 | 4,051,831,046 | | | 114,487 |
| 2006 | 1.5000 | 0.2922 | 4,072,543,076 | | | 142,841 |
| 2007 | 1.3700 | 0.2922 | 4,514,185,236 | | | 174,647 |
| 2008 | 1.0400 | 0.3872 | 4,836,495,656 | | | 145,907 |
| 2009 | 1.0400 | 0.3794 | 5,237,283,359 | | | 206,709 |
| 2010 | 1.0400 | 0.3794 | 5,103,026,983 | | | 280,038 |
| 2011 | 1.0400 | 0.3794 | 5,534,743,285 | | | 513,577 |
| 2012 | 1.0400 | 0.3794 | 5,364,894,533 | | | 850,863 |
| 2013 School Period Under Audit (1) | 1.0400 | 0.3794 | 5,300,745,597 | | | |
| 1000 Totals | | | | | | \$ <u>2,795,070</u> |

(1) Ten Months Ended June 30, 2013

| 20 | 31 | 32 | 40 | 50 |
|--------------------------------------|-------------------------------------|--------------------------------------|--------------------------------------|---------------------------------------|
| Current Ten Month's Total Levy | Maintenance Total Collections | Debt Service Total Collections | Entire Ten Month's Adjustments | Ending Balance June 30, 2013 |
| \$ | \$ 5,649 | \$ 1,256 | \$(60,899) | \$ 298,197 |
| | 3,001 | 585 | | 110,901 |
| | 4,781 | 931 | (1,012) | 136,117 |
| | 11,876 | 2,533 | (4,338) | 155,900 |
| | 10,460 | 3,894 | (2,205) | 129,348 |
| | 37,465 | 13,668 | (2,385) | 153,191 |
| | 57,260 | 20,890 | (8,853) | 193,035 |
| | 130,181 | 47,492 | (73,212) | 262,692 |
| | 265,361 | 96,808 | (54,435) | 434,259 |
| <u>75,238,783</u> | <u>57,329,989</u> | <u>20,914,844</u> | <u>4,272,649</u> | <u>1,266,599</u> |
| <u>\$ 75,238,783</u> | <u>\$ 57,856,023</u> | <u>\$ 21,102,901</u> | <u>\$ 4,065,310</u> | <u>\$ 3,140,239</u> |

PEARLAND INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES FOR COMPUTATION OF
INDIRECT COST FOR 2013-2014
GENERAL AND SPECIAL REVENUE FUNDS
TEN MONTHS ENDED JUNE 30, 2013

EXHIBIT J-2
Page 1 of 1

| Account Number | Account Name | 1 (702) School Board | 2 (703) Tax Collection | 3 (701) Supt's Office | 4 (750) Indirect Cost | 5 (720) Direct Costs | 6 (Other) Miscellaneous | 7 Total |
|----------------|---|----------------------------|------------------------------|-----------------------------|-----------------------------|----------------------------|-------------------------------|--------------|
| 611X-6146 | PAYROLL COSTS | \$ 25 | \$ | \$ 272,430 | \$ 1,884,913 | \$ 145,244 | \$ | \$ 2,302,612 |
| 6149 | Fringe benefits (unused leave for separating employees in function 41 and related 53) | | | | 19,600 | 121 | | 19,721 |
| 6149 | Fringe benefits (unused leave for separating employees in all functions except 41 and related 53) | | | | | | | -0- |
| 6211 | Legal services | | | 23,626 | | | | 23,626 |
| 6212 | Audit services | | | | 45,543 | | | 45,543 |
| 6213 | Tax appraisal & collection | | 408,183 | | | | | 408,183 |
| 621X | Other professional services | | | | 42,535 | | | 42,535 |
| 6220 | Tuition & transfer payments | | | | | | | -0- |
| 6230 | Education service centers | | | | 424 | | | 424 |
| 6240 | Contract maint. & repair | | | 483 | | 70,033 | | 70,516 |
| 6250 | Utilities | | | | | | | -0- |
| 6260 | Rentals | | | 2,454 | 33,656 | | | 36,110 |
| 6290 | Miscellaneous contract | | | | 97,092 | 4,853 | | 101,945 |
| 6320 | Textbooks & reading | | | 321 | 4,130 | | | 4,451 |
| 6330 | Testing materials | | | | | | | -0- |
| 63XX | Other supplies/materials | 121 | | 1,666 | 121,384 | 3,097 | | 126,268 |
| 6410 | Travel, subsistence, stipends | 3,679 | | 800 | 37,558 | | | 42,037 |
| 6420 | Ins. & bonding costs | | | | 39,751 | | | 39,751 |
| 6430 | Election costs | 11,693 | | | | | | 11,693 |
| 6490 | Miscellaneous operating | 3,295 | | 1,597 | 48,091 | 521 | | 53,504 |
| 6500 | Debt service | | | | | | | -0- |
| 6600 | Capital outlay | | | | | | | -0- |
| TOTAL | | \$ 18,813 | \$ 408,183 | \$ 303,377 | \$ 2,374,677 | \$ 223,869 | \$ -0- | \$ 3,328,919 |

Total expenditures for General and Special Revenue Funds (Exhibit C-2) (9) \$ 131,589,205

FISCAL YEAR

| | |
|--|-----------------------|
| Total Capital Outlay (6600) | (10) \$ 1,291,535 |
| Total Debt & Lease (6500) | (11) -0- |
| Plant Maintenance (Function 51, 6100-6400) | (12) 11,315,240 |
| Food (Function 35, 6341 and 6499) | (13) 3,867,659 |
| Stipends (6413) | (14) -0- |
| Column 4 (above) - Total Indirect Cost | <u>2,374,677</u> |
| Subtotal | <u>18,849,111</u> |
| Net Allowed Direct Cost | <u>\$ 112,740,094</u> |

CUMULATIVE

| | |
|---|---------------------|
| Total Cost of Buildings before Depreciation (1520) | (15) \$ 377,226,370 |
| Historical Cost of Buildings over 50 years old | (16) \$ 3,166,996 |
| Amount of Federal Money in Building Cost (Net of Above) | (17) \$ 100,034 |
| Total Cost of Furniture and Equipment before Depreciation (1530 & 1540) | (18) \$ 25,864,802 |
| Historical Cost of Furniture & Equipment over 16 years old | (19) \$ 760,778 |
| Amount of Federal Money in Furniture & Equipment (Net of Above) | (20) \$ 1,978,375 |

Note A- \$ 138,864 in Function 53 expenditures are included in this report on administrative costs.

\$ 408,183 in Function 99 expenditures for appraisal district costs are included in this report on administrative costs.

PEARLAND INDEPENDENT SCHOOL DISTRICT
FUND BALANCE AND CASH FLOW CALCULATION WORKSHEET
GENERAL FUND
JUNE 30, 2013
UNAUDITED

EXHIBIT J-3
Page 1 of 1

| Data Control Code | Explanation | Amount |
|-------------------------|--|-----------------------------|
| 1 | Total General Fund Balance as of 06/30/13 (Exhibit C-1 object 3000 for the General Fund only) | \$ <u>44,316,819</u> |
| 2 | Total Non-Spendable Fund Balance (from Exhibit C-1 - total of object 341X-344X for the General Fund only) | 1,829,626 |
| 3 | Total Restricted Fund Balance (from Exhibit C-1 - total of object 345X-349X for the General Fund only) | |
| 4 | Total Committed Fund Balance (from Exhibit C-1 - total of object 351X-354X for the General Fund only) | 7,500,000 |
| 5 | Total Assigned Fund Balance (from Exhibit C-1 - total of object 355X-359X for the General Fund only) | 12,888,000 |
| 6 | Estimated amount needed to cover fall cash flow deficits in the General Fund (Net of borrowed funds representing unearned revenues) | 112,276 |
| 7 | Estimate of two month's average cash disbursements during the fiscal year | 20,431,510 |
| 8 | Estimate of delayed payments from state sources (58XX) including August payment delays | 1,849,943 |
| 9 | Estimate of underpayment from state sources equal to variance between Legislative Payment Estimate (LPE) and District Planning Estimate (DPE) or District's calculated earned state aid amount | |
| 10 | Estimate of delayed payments from federal sources (59XX) | |
| 11 | Estimate of expenditures to be reimbursed to General Fund from Capital Projects Fund (uses of General Fund cash after bond referendum and prior to issuance of bonds) | <u> </u> |
| 12 | Optimum fund balance and cash flow (2+3+4+5+6+7+8+9+10+11) | <u>44,611,355</u> |
| 13 | Excess (deficit) unassigned General Fund balance (1 - 12) | \$(<u>294,536</u>) |

PEARLAND INDEPENDENT SCHOOL DISTRICT

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - FOOD SERVICE SPECIAL REVENUE FUND
TEN MONTHS ENDED JUNE 30, 2013**

**EXHIBIT J-4
Page 1 of 1**

| Data Control Codes | | Food Service Special Revenue Fund | | | Variance with Final Budget Positive (Negative) |
|--------------------------|---|-----------------------------------|---------------------|---------------------|---|
| | | Budgeted Amounts | | Actual | |
| | | Original | Final | | |
| | REVENUES: | | | | |
| 5700 | Local and intermediate sources | \$ 5,280,900 | \$ 5,280,900 | \$ 4,769,592 | \$(511,308) |
| 5800 | State program revenues | 175,400 | 175,400 | 149,793 | (25,607) |
| 5900 | Federal program revenues | <u>2,640,100</u> | <u>2,640,100</u> | <u>3,499,264</u> | <u>859,164</u> |
| 5020 | Total revenues | <u>8,096,400</u> | <u>8,096,400</u> | <u>8,418,649</u> | <u>322,249</u> |
| | EXPENDITURES: | | | | |
| | Current: | | | | |
| 0035 | Food service | <u>8,096,400</u> | <u>8,096,400</u> | <u>7,522,486</u> | <u>573,914</u> |
| 6030 | Total expenditures | <u>8,096,400</u> | <u>8,096,400</u> | <u>7,522,486</u> | <u>573,914</u> |
| 1100 | Excess (deficiency) of revenues over expenditures | <u>-0-</u> | <u>-0-</u> | <u>896,163</u> | <u>896,163</u> |
| | OTHER FINANCING SOURCES (USES): | | | | |
| | Total other financing sources and (uses) | | | | <u>-0-</u> |
| 1200 | Net change in fund balances | -0- | -0- | 896,163 | 896,163 |
| 0100 | Fund balances – beginning | <u>2,277,736</u> | <u>2,277,736</u> | <u>2,277,736</u> | <u>-0-</u> |
| 3000 | Fund balances – ending | <u>\$ 2,277,736</u> | <u>\$ 2,277,736</u> | <u>\$ 3,173,899</u> | <u>\$ 896,163</u> |

PEARLAND INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - DEBT SERVICE FUND
TEN MONTHS ENDED JUNE 30, 2013

EXHIBIT J-5
Page 1 of 1

| Data Control Codes | | Debt Service Fund | | | Variance with Final Budget Positive (Negative) |
|---------------------------------|---|---------------------|-----------------------|-----------------------|--|
| | | Budgeted Amounts | | Actual | |
| | | Original | Final | | |
| REVENUES: | | | | | |
| 5700 | Local and intermediate sources | \$ 21,241,000 | \$ 21,241,000 | \$ 21,352,764 | \$ 111,764 |
| 5800 | State program revenues | <u>2,531,144</u> | <u>2,531,144</u> | <u>3,123,625</u> | <u>592,481</u> |
| 5020 | Total revenues | <u>23,772,144</u> | <u>23,772,144</u> | <u>24,476,389</u> | <u>704,245</u> |
| EXPENDITURES: | | | | | |
| Current: | | | | | |
| 0071 | Principal on long-term debt | 10,060,000 | 10,060,000 | 10,060,000 | -0- |
| 0072 | Interest on long-term debt | 7,126,657 | 7,126,657 | 7,126,657 | -0- |
| 0073 | Bond issuance costs and fees | <u>6,931,873</u> | <u>6,710,645</u> | <u>586,019</u> | <u>6,124,626</u> |
| 6030 | Total expenditures | <u>24,118,530</u> | <u>23,897,302</u> | <u>17,772,676</u> | <u>6,124,626</u> |
| 1100 | Excess (deficiency) of revenues over expenditures | <u>(346,386)</u> | <u>(125,158)</u> | <u>6,703,713</u> | <u>6,828,871</u> |
| OTHER FINANCING SOURCES (USES): | | | | | |
| 7911 | Proceeds from bonds | | 53,645,000 | 53,645,000 | -0- |
| 7916 | Premium on issuance of bonds | | 6,148,389 | 6,148,388 | (1) |
| 8949 | Payment to escrow agent | | <u>(60,014,617)</u> | <u>(60,014,616)</u> | <u>1</u> |
| | Total other financing sources and (uses) | <u>-0-</u> | <u>(221,228)</u> | <u>(221,228)</u> | <u>-0-</u> |
| 1200 | Net change in fund balances | <u>(346,386)</u> | <u>(346,386)</u> | <u>6,482,485</u> | <u>6,828,871</u> |
| 0100 | Fund balances – beginning | <u>4,564,005</u> | <u>4,564,005</u> | <u>4,564,005</u> | <u>-0-</u> |
| 3000 | Fund balances – ending | <u>\$ 4,217,619</u> | <u>\$ 4,217,619</u> | <u>\$ 11,046,490</u> | <u>\$ 6,828,871</u> |

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FEDERAL AWARDS SECTION

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KENNEMER, MASTERS & LUNSFORD

CERTIFIED PUBLIC ACCOUNTANTS

Limited Liability Company

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Independent Auditor's 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
Pearland Independent School District
Pearland, Texas 77588

We have audited, in accordance with the 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Pearland Independent School District (the "District"), as of and for the ten months ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 31, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

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Board of Trustees
Pearland Independent School District
Pearland, Texas 77588

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Kennemer, Masters & Hungford, LLC

Lake Jackson, Texas
October 31, 2013

KENNEMER, MASTERS & LUNSFORD

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Limited Liability Company

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Independent Auditor's Report
On Compliance for each Major Program and on Internal
Control over Compliance Required by OMB Circular A-133

To the Board of Trustees
Pearland Independent School District
Pearland, Texas 77588

Report on Compliance for Each Major Federal Program

We have audited Pearland Independent School District's compliance with the types of compliance requirements described in the *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 ten months ended June 30, 2013. 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the Pearland Independent School District, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the ten months ended June 30, 2013.

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Report on Internal Control over Compliance

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

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

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Kennemer, Masters & Hunsford, LLC

Lake Jackson, Texas 77566
October 31, 2013

PEARLAND INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
TEN MONTHS ENDED JUNE 30, 2013

Page 1 of 1

I. Summary of auditor's results:

1. Type of auditor's report issued on the financial statements: Unqualified.
2. No internal control finding, that was required to be reported in this schedule, was disclosed in the audit of the financial statements.
3. Noncompliance, which is material to the financial statements: None.
4. No internal control findings, that were required to be reported in this schedule, were disclosed in the audit of the major programs.
5. Type of auditor's report on compliance for major programs: Unqualified.
6. Did the audit disclose findings, which are required to be reported under Sec._510(a):
No.
7. Major programs include:
 - IDEA Part B Cluster Programs:
 - 84.027 IDEA Part B Formula Program
 - 84.173 IDEA Part B Preschool Program
8. Dollar threshold used to distinguish between Type A and Type B programs: \$ 300,000.
9. Low risk auditee: Yes.

II. Findings related to the financial statements.

The audit disclosed the following finding required to be reported:

None.

III. Findings and questioned costs related to the federal awards.

The audit disclosed the following finding required to be reported:

None.

PEARLAND INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF STATUS OF PRIOR FINDINGS
TEN MONTHS ENDED JUNE 30, 2013

Page 1 of 1

Schedule reference number 2011-2 (2012-1): Direct Expenditure of Program Intent Code 22 Career & Technology Block Grant. Direct (unallocated) expenditures toward state career & technology block grant failed to exceed 60% and 58% of Foundation School Program (FSP) allotment for the 2010-2011 and 2011-2012.

Corrective action taken: The District has reviewed the budgets in relation to all FSP allocated basic programs to ensure that allocations are made to accurately reflect the amounts charged to expenditures for the various programs. Based on this, the problem was resolved and the required expenditures for the Program Intent Code 22 Career & Technology Block Grant were incurred.

PEARLAND INDEPENDENT SCHOOL DISTRICT
CORRECTIVE ACTION PLAN
TEN MONTHS ENDED JUNE 30, 2013

Page 1 of 1

None.

PEARLAND INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
TEN MONTHS ENDED JUNE 30, 2013

EXHIBIT K-1
Page 1 of 2

| Federal Grantor/Pass-Through Grantor/Program Title | Federal CFDA Number | Pass Through Entity Identifying Number | Expenditures Indirect Costs or Award Amount |
|---|---------------------------|---|--|
| <u>U.S. Department of Education</u> | | | |
| Passed Through State Department of Education: | | | |
| ESEA, Title I Part A, Improving Basic Programs | 84.010A | 13610101020908 | \$ <u>825,785</u> |
| IDEA Part B, Formula* | 84.027 | 136600010209086600 | <u>2,839,211</u> |
| IDEA Part B, Preschool* | 84.173 | 136610010209086610 | <u>48,567</u> |
| Vocational Education, Basic Grant | 84.048 | 13420006020908 | <u>137,374</u> |
| ESEA, Title II, Part A - Teacher/ Principal | 84.367A | 13694501020908 | <u>146,417</u> |
| Title III, Part A Language Education Program | 84.365A | 13671001020908 | <u>112,736</u> |
| Title IV, Part B 21 st Century Program | 84.287 | 126950127110014 | 47,656 |
| Title IV, Part B 21 st Century Program | 84.287 | 126950147110032 | 90,690 |
| Title IV, Part B 21 st Century Program | 84.287 | 136950167110020 | <u>148,933</u> |
| | | | <u>287,279</u> |
| Title VI, Part A, Summer School LEP | 84.369 | 69551202 | <u>11,154</u> |
| TOTAL DEPARTMENT OF EDUCATION | | | \$ <u>4,408,523</u> |
| <u>U.S. Department of Agriculture</u> | | | |
| Direct Program: | | | |
| Commodity Supplement Program** | 10.555 | 020908 | \$ <u>450,158</u> |
| Passed Through State Department of Education: | | | |
| School Breakfast Program** | 10.553 | 7131301 | 603,324 |
| National School Lunch Program** | 10.555 | 7141301 | <u>2,445,782</u> |
| | | | <u>3,049,106</u> |
| TOTAL DEPARTMENT OF AGRICULTURE | | | \$ <u>3,499,264</u> |

PEARLAND INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
TEN MONTHS ENDED JUNE 30, 2013

EXHIBIT K-1
Page 2 of 2

| Federal Grantor/Pass-Through Grantor/Program Title | Federal CFDA Number | Pass Through Entity Identifying Number | Expenditures Indirect Costs or Award Amount |
|---|---------------------------|---|--|
| <u>U.S. Department of Defense</u> | | | |
| Direct Programs: | | | |
| ROTC | 12.000 | --- | \$ <u>117,261</u> |
| <u>U.S. Department of Health & Human Services</u> | | | |
| Passed Through La Porte Independent School District: | | | |
| Medicaid Administrative Claiming Program - MAC | 93.778 | --- | \$ <u>5,708</u> |
| TOTAL FEDERAL ASSISTANCE | | | \$ <u>8,030,756</u> |
| * IDEA Cluster Programs | | | |
| ** National School Lunch Cluster Programs | | | |
| RECONCILIATION: | | | |
| Federal program revenues (Exhibit A-2) | | | \$ 8,408,421 |
| Less: School Health and Related Services (SHARS) not considered federal revenue for the Schedule of Federal Awards | | | <u>377,665</u> |
| Total federal financial assistance (Schedule of expenditures of Federal Awards) | | | \$ <u>8,030,756</u> |

See Notes to Supplement Schedule of Expenditures of Federal Awards

PEARLAND INDEPENDENT SCHOOL DISTRICT
NOTES ON ACCOUNTING POLICIES FOR FEDERAL AWARDS
TEN MONTHS ENDED JUNE 30, 2013

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 deferred outflows of resources, and current liabilities and deferred inflows of resources 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 position.

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 unearned revenues until earned. Generally unused balances are returned to the grantor at the close of specified project periods.

Commodity Supplement (CFDA 10.555) received like kind goods and no grant revenue received was reported on the schedule for the monetary value of these goods. The monetary value of goods received was \$ 464,525, while the monetary value of goods used and recognized as income and expenditures was \$ 450,158.

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 ten months ended June 30, 2013. 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 position 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 shown on Schedule of Expenditures of Federal Awards (Exhibit K-1)) | \$ 8,030,756 |
| Federal Revenue Not Included in the Schedule of Federal Awards: | |
| School Health and Related Services (SHARS) | <u>377,665</u> |
| Total federal revenue (Exhibit C-3) | <u>\$ 8,408,421</u> |