

**Financial Statements
and
Independent Auditor's Report**

**MCALLEN INDEPENDENT
SCHOOL DISTRICT**

August 31, 2009

LONG CHILTON, LLP
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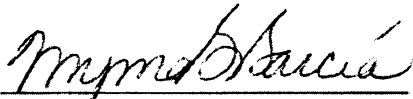
CERTIFICATE OF THE BOARD

MCALLEN INDEPENDENT SCHOOL DISTRICT,
HIDALGO COUNTY

County Number 108, District Number 906, Region Number 1

We the undersigned, do hereby certify that the audit report above named local education agency for the year August 31, 2009 was reviewed and ✓ approved _____ disapproved at a meeting of the Board of such local education agency on the 25th day of

January, 2010.



Secretary, Board of Trustees



President, Board of Trustees

MCALLEN INDEPENDENT SCHOOL DISTRICT
 Annual Financial Report For
 The Year Ended August 31, 2009

TABLE OF CONTENTS

	<u>EXHIBIT</u>	PAGE <u>NO.</u>
CERTIFICATE OF BOARD		
FINANCIAL SECTION		
Independent Auditor's Report		1
Management's Discussion and Analysis		3
<u>Basic Financial Statements:</u>		
Government-wide Financial Statements:		
Statement of Net Assets.....	A-1	13
Statement of Activities	B-1	14
Fund Financial Statements:		
Balance Sheet – Governmental Funds.....	C-1	16
Reconciliation of the Government Funds		
Balance Sheet to the Statement of Net Assets	C-1R	17
Statement of Revenues, Expenditures, and Changes in		
Fund Balances – Governmental Funds	C-2	18
Reconciliation of the Statement of Revenues, Expenditures, and Changes in		
Fund Balances of Governmental Funds to the Statement of Activities	C-3	19
Statement of Net Assets – Proprietary Funds.....	D-1	20
Statement of Revenues, Expenses and Changes in		
Fund Net Assets – Proprietary Funds.....	D-2	21
Statement of Cash Flows – Proprietary Funds	D-3	22
Statement of Fiduciary Net Assets – Fiduciary Funds.....	E-1	23
Statement of Changes in Fiduciary Net Assets – Fiduciary Funds.....	E-2	24
Notes to Financial Statements.....		25
<u>Required Supplementary Information</u>		
General Fund – Budgetary Comparison Schedule	G-1	51
Notes to Required Supplementary Information.....		53
<u>Other Schedules:</u>		
Schedule of Delinquent Taxes Receivable.....	J-1	56
Schedule of Expenditures for Computation of Indirect Cost for 2010-11.....	J-2	58
Fund Balance and Cash Flow Calculation Worksheet - General Fund (Unaudited).....	J-3	59
Debt Service Fund - Budgetary Comparison Schedule	J-4	60

MCALLEN INDEPENDENT SCHOOL DISTRICT
 Annual Financial Report For
 The Year Ended August 31, 2009

TABLE OF CONTENTS (Continued)

	<u>EXHIBIT</u>	<u>PAGE</u> <u>NO.</u>
<u>Overall Compliance, Internal Controls, and Federal Awards Section:</u>		
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 <i>Government Auditing Standards</i>		63
Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133		65
Schedule of Findings and Questioned Costs		67
Corrective Action Plan		71
Schedule of Status of Prior Year Findings		72
Schedule of Expenditures of Federal Awards	K-1	73
Notes to Schedule of Expenditures of Federal Awards		76
Schedule of Required Responses to Selected School FIRST Indicators	K-2	77

FINANCIAL SECTION

MCALLEN INDEPENDENT SCHOOL DISTRICT
Annual Financial Report for
The Year Ended August 31, 2009

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Independent Auditor's Report

To the Board of Trustees
McAllen Independent
School District
McAllen, Texas 78501

Members of the Board:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the McAllen Independent School District as of and for the year ended August 31, 2009, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.


We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the McAllen Independent School District as of August 31, 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 15, 2010 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying Management's Discussion and Analysis, and the General Fund - Budgetary Comparison Schedule on pages 3 through 10 and 51 through 52 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the McAllen Independent School District's basic financial statements. The accompanying financial information listed as Other Schedules in the table of contents and the schedule of expenditures of federal awards are presented in accordance with requirements of the Texas Education Agency and for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and are not a required part of 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, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


LONG CHILTON, LLP
Certified Public Accountants

McAllen, Texas
January 15, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of McAllen Independent School District's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year ended August 31, 2009. Please read it in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The District's total combined net assets were \$110,506,143 at August 31, 2009. This amounted to a decrease of \$4,485,699 from last year's total of \$114,991,842.
- During the year, the District's expenses were \$4,485,699 greater than the revenues generated in taxes and other revenues for governmental and business-type activities. The prior year expenses were \$1,152,446 greater than the revenues.
- The costs of the District's programs increased by 3.18% from the prior year while the District's average daily attendance increased by 0.21%.
- The general fund reported a fund balance this year of \$12,869,351 with \$9,183,018 of this amount unreserved.

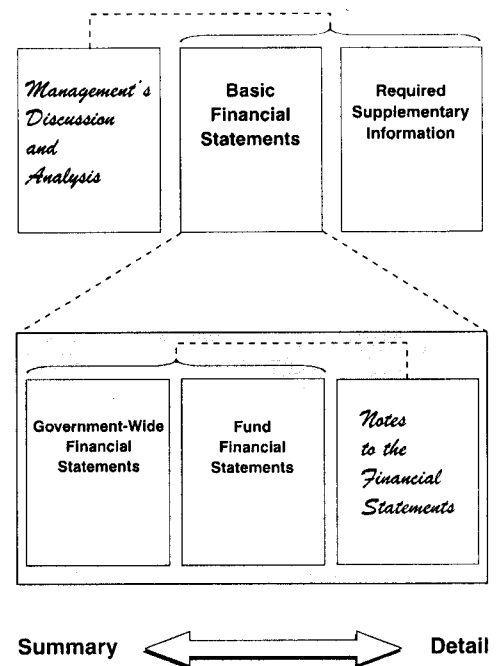
OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of four parts—*management's discussion and analysis* (this section), the *basic financial statements*, *required supplementary information*, and an other schedules section that presents various Texas Education Agency required schedules.

The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the District's operations in more detail than the government-wide statements.
- *The governmental funds* statements tell how *general government* services were financed in the *short term* as well as what remains for future spending.
- *Proprietary fund* statements offer *short- and long-term* financial information about the activities the government operates *like businesses*, such as Project Safe and Secure, the After School Program.
- *Fiduciary fund* statements provide information about the financial relationships in which the District acts solely as a *trustee or agent* for the benefit of others, to whom the resources in question belong.

Figure A-1, Required Components of the District's Annual Financial Report



The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements. Figure A-1 shows how the required parts of this annual report are arranged and related to one another.

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Government-wide Statements

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes *all* of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the District's *net assets* and how they have changed. Net assets—the difference between the District's assets and liabilities—is one way to measure the District's financial health or position.

Figure A-2. Major Features of the District's Government-wide and Fund Financial Statements

<i>Type of Statements</i>	Fund Statements			
	Government-wide	Governmental Funds	Proprietary Funds	Fiduciary Funds
<i>Scope</i>	Entire Agency's government (except fiduciary funds) and the Agency's component units	The activities of the district that are not proprietary or fiduciary	Activities the district operates similar to private businesses: self insurance	Instances in which the district is the trustee or agent for someone else's resources
<i>Required financial statements</i>	♦ Statement of net assets	♦ Balance sheet	♦ Statement of net assets	♦ Statement of fiduciary net assets
	♦ Statement of activities	♦ Statement of revenues, expenditures & changes in fund balances	♦ Statement of revenues, expenses and changes in fund net assets ♦ Statement of cash flows	♦ Statement of changes in fiduciary net assets
<i>Accounting basis and measurement focus</i>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
<i>Type of asset/liability information</i>	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; the Agency's funds do not currently contain capital assets, although they can
<i>Type of inflow/outflow information</i>	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the District, you need to consider additional non-financial factors such as changes in the District's tax base.

The government-wide financial statements of the District are divided into two categories:

- *Governmental activities*—Most of the District's basic services are included here, such as instruction, extracurricular activities, curriculum and staff development, health services, and general administration. Property taxes and grants finance most of these activities.
- *Business-type activities*—The District charges fees to customers to help cover the costs of certain services it provides. The District's Project Safe and Secure Program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant *funds*—not the District as a whole. Funds are accounting devices that the District uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and by bond covenants.
- The Board of Trustees establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The District has three kinds of funds:

- *Governmental funds*—Most of the District's basic services are included in governmental funds, which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explain the relationship (or differences) between them.
- *Proprietary funds*—Services for which the District charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long and short-term financial information. In fact, the District's *enterprise funds* (one type of proprietary fund) are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District has Project Safe and Secure, the After School Program. We use *internal service funds* (the other kind of proprietary fund) to report activities that provide supplies and services for the District's other programs and activities—such as the District's Self Insurance Funds and Print shop.
- *Fiduciary funds*—The District is the trustee, or *fiduciary*, for certain funds. It is also responsible for other assets that—because of a trust arrangement—can be used only for the trust beneficiaries. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. We exclude these activities from the District's government-wide financial statements because the District cannot use these assets to finance its operations. The District has the 457 annuity accounts, student activity accounts and retirees' insurance accounts.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net assets. The District's *combined* net assets decreased by \$4,485,699 between fiscal years 2008 and 2009 to \$110,506,143 at August 31, 2009. (See Table A-1).

Table A-1
District's Net Assets

	Governmental Activities		Business-type Activities		Total		Total Percentage Change 2009-08
	2009	2008	2009	2008	2009	2008	
Current and Other Assets	\$55,427,217	\$75,327,557	\$548,455	\$531,405	\$55,975,672	\$75,858,962	-26.21%
Capital and Non-Current Assets	206,225,720	194,771,676	18,451	25,974	206,244,171	194,797,650	5.88%
Total Assets	261,652,937	270,099,233	566,906	557,379	262,219,843	270,656,612	-3.12%
Current Liabilities	25,530,128	26,168,877	9,939	36,464	25,540,067	26,205,341	-2.54%
Long Term Liabilities	126,173,633	129,459,430	0	0	126,173,633	129,459,430	-2.54%
Total Liabilities	151,703,761	155,628,307	9,939	36,464	151,713,700	155,664,771	-2.54%
Net Assets:							
Invested in Capital Assets net of related debt	95,601,055	92,213,434	18,451	25,974	95,619,506	92,239,408	3.66%
Restricted	5,062,595	6,845,130	0	0	5,062,595	6,845,130	-26.04%
Unrestricted	9,285,526	15,412,363	538,516	494,941	9,824,042	15,907,304	-38.24%
Total Net Assets	\$109,949,176	\$114,470,927	\$556,967	\$520,915	\$110,506,143	\$114,991,842	-3.90%

Net assets of the District's governmental activities decreased 3.95 percent to \$109,949,176. However, most of those net assets are either restricted as to the purposes they can be used for or they are invested in capital assets. Unrestricted net assets amounted to \$9,285,526 at the end of this year. The unrestricted balance (surplus) decreased by 39.75 percent from the prior year. The net assets of our business-type activities increased by 6.92 percent to \$556,967, these resources cannot be used in governmental activities. The District generally can only use these net assets to finance the continuing operations of its business activities such as Project Safe and Secure.

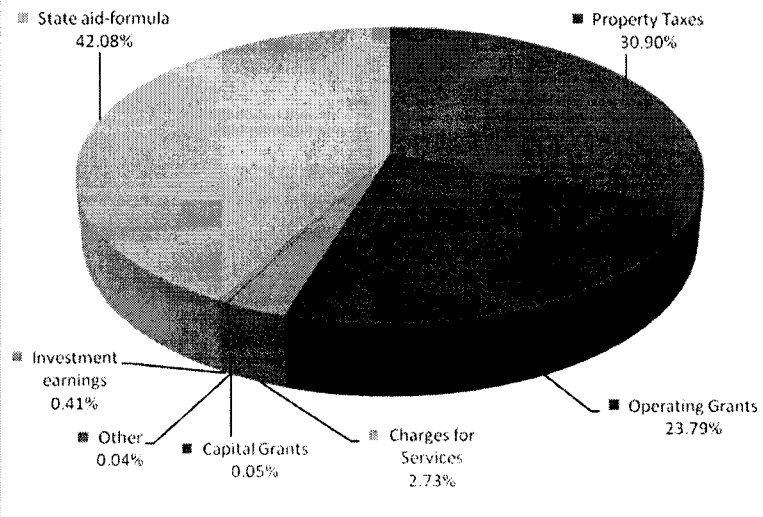
Changes in net assets. The District's total revenues increased by 1.72 percent to \$228,733,852. (See Table A-2.) Local sources include property taxes and make up 30.90 percent. (See Figure A-3). State Program revenues represent 42.08 percent, Operating Grants represent 23.79 percent while only 2.73 percent comes from charges for services.

The total cost of all programs and services was \$233,219,551; 82.70 percent of these costs are for instructional and student services.

Governmental Activities

- The property tax rate was 1.145 in 2008-09 and will change to 1.165 for the 2009-10 fiscal year. The 2008-09 Maintenance and Operations tax rate was 1.04 and will remain the same in 2009-10. The Debt Service rate was .1050 in 2008-09 and will change to .1250 for the 2009-10 fiscal year.

Figure A-3 District Sources of Revenue for Fiscal Year 2009



- The District had projects funded from fund balance for the following 2008 carried forward items: Police Vehicles, Community Information HD Equipment and Cameras, Fine Arts Equipment Replacement, Food Service Remodeling of Jackson Kitchen and Transportation Security Cameras. In addition the District had the following current year items funded from fund balance: Rowe High School chillers and gym floor, Lincoln Middle School compressor, McAllen High School cooling tower repairs and auditorium lighting and Plant Operations supplies and materials.

Table A-2
Changes in the District's Net Assets

	Governmental Activities		Business-type Activities		Total		Total Percentage Change 2009-08
	2009	2008	2009	2008	2009	2008	
Program Revenues:							
Charges for Services	\$5,750,332	\$5,152,225	\$487,853	\$462,208	\$6,238,185	\$5,614,433	11.11%
Operating Grants and Contributions	54,421,053	51,152,571	0	0	\$54,421,053	\$51,152,571	6.39%
Capital Grants & Contributions	113,348	0	0	0	\$113,348	\$0	100.00%
General Revenues							
Property Taxes	70,681,239	67,551,279	0	0	\$70,681,239	\$67,551,279	4.63%
State Aid-Formula	96,248,309	96,937,767	0	0	\$96,248,309	\$96,937,767	-0.71%
Investment Earnings	938,272	3,452,276	0	0	\$938,272	\$3,452,276	-72.82%
Other	90,147	162,478	3,299	2,695	\$93,446	\$165,173	-43.43%
Total Revenues	228,242,700	224,408,596	491,152	464,903	228,733,852	224,873,499	1.72%
Expenses							
Instruction	\$131,973,437	\$126,659,684	\$0	\$0	\$131,973,437	\$126,659,684	4.20%
Instructional Resources and Media Services	4,448,101	4,695,275	0	0	4,448,101	4,695,275	-5.26%
Curriculum Dev. And Instructional Staff Dev.	4,156,696	4,107,015	0	0	4,156,696	4,107,015	1.21%
Instructional Leadership	3,535,241	3,379,287	0	0	3,535,241	3,379,287	4.61%
School Leadership	11,853,184	11,465,411	0	0	11,853,184	11,465,411	3.38%
Guidance, Counseling and Evaluation	10,079,681	10,178,823	0	0	10,079,681	10,178,823	-0.97%
Social Work Services	1,703,876	1,399,420	0	0	1,703,876	1,399,420	21.76%
Health Services	2,973,683	2,783,813	0	0	2,973,683	2,783,813	6.82%
Student (Pupil) Transportation	3,291,024	3,621,630	0	0	3,291,024	3,621,630	-9.13%
Food Services	12,012,365	11,981,228	0	0	12,012,365	11,981,228	0.26%
Curricular/Extracurricular Activities	6,849,204	6,298,705	0	0	6,849,204	6,298,705	8.74%
General Administration	5,103,477	5,717,276	0	0	5,103,477	5,717,276	-10.74%
Plant Maintenance & Oper.	21,471,197	20,822,582	0	0	21,471,197	20,822,582	3.11%
Security & Monitoring Svcs.	3,053,185	2,806,969	0	0	3,053,185	2,806,969	8.77%
Data Processing Services	2,414,951	2,066,984	0	0	2,414,951	2,066,984	16.83%
Community Services	1,532,876	1,626,865	398,998	440,381	1,931,874	2,067,246	-6.55%
Debt Service	5,769,253	5,914,324	0	0	5,769,253	5,914,324	-2.45%
Facilities Acquisition and Construction	0	0	0	0	0	0	
Payments to Fiscal Agent/ Member Dist.-SSA	0	0	0	0	0	0	
Payments to Juvenile Justice Alternative Ed. Program	9,954	60,273	0	0	9,954	60,273	-83.49%
Other Intergovernmental Charges	589,168	0	0	0	589,168	0	100.00%
Total Expenses	\$232,820,553	\$225,585,564	\$398,998	\$440,381	\$233,219,551	\$226,025,945	3.18%
Increase (Decrease) in Net Assets	(\$4,577,853)	(\$1,176,968)	\$92,154	\$24,522	(\$4,485,699)	(1,152,446)	289.23%
Extraordinary Item	\$0	\$0	\$0	\$0	\$0	\$0	
Transfers	\$56,102	\$35,397	(\$56,102)	(35,397)	\$0	\$0	0.00%
Total Increase(Decrease)	(\$4,521,751)	(1,141,571)	\$36,052	(10,875)	(\$4,485,699)	(1,152,446)	289.23%
Beginning Net Assets	114,470,927	115,612,498	520,915	531,790	114,991,842	116,144,288	-0.99%
Ending Net Assets	\$109,949,176	\$114,470,927	\$556,967	\$520,915	\$110,506,143	\$114,991,842	-3.90%

- The cost of all *governmental* activities this year was \$232,820,553.
- However, the amount that our taxpayers paid for these activities through property taxes was \$70,681,239.
- Some of the cost was paid by those who directly benefited from the programs in the amount of \$5,750,332, and
- By grants and contributions of \$54,534,401.

Table A-3 presents the cost of each of the District's largest functions as well as each function's net cost (total cost less fees generated by the activities and intergovernmental aid). The net cost reflects the financial burden that was placed on the District's taxpayers by each of these functions.

Table A-3
Net Cost of District's Governmental Activities

	Total Cost of Services		%Change	Net Cost of Services		%Change
	<u>2009</u>	<u>2008</u>		<u>2009</u>	<u>2008</u>	
Instruction	\$131,973,437	\$126,659,684	4.20%	\$99,568,277	\$96,723,262	2.94%
School Leadership	11,853,184	11,465,411	3.38%	10,400,876	10,219,006	1.78%
Guidance, Counseling and Evaluation	10,079,681	10,178,823	-0.97%	7,683,657	7,994,125	-3.88%
Food Services	12,012,365	11,981,228	0.26%	260,117	501,653	-48.15%
Plant Maintenance & Operations	21,471,197	20,822,582	3.11%	20,977,358	20,326,484	3.20%

Business-Type Activities

Revenues of the District's business-type activities increased 5.65 percent to \$491,152 and expenses decreased 9.40 percent to \$398,998. (Refer to Table A-2) Factors contributing to these results were primarily due to increased enrollment in Project Safe and Secure.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Governmental Funds. The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Revenues from governmental fund types totaled \$227,387,448. The District experience an increase in Federal Program Revenues as a result of several new grants awarded to the District.

As of August 31, 2009, the District's governmental funds reported ending fund balances of \$18,089,768. The unreserved fund balance of \$9,183,018 or 50.76 percent of this total amount is available for spending at the government's discretion. The remainder of fund balance is reserved or designated to indicate that it is not available for new spending because it has already been committed as follows: 1) Inventory (\$787,008), 2) Debt Service (\$1,359,315), 3) Prepaid Items (\$1,210,278), 4) Outstanding Encumbrances (\$411,441), 5) Reserved for Food Service (\$277,606), 6) Other Reserves (\$3,861,102), and 7) Other Designated Fund Balance (\$1,000,000).

General Fund. The general fund is the chief operating fund of the District. At the end of the fiscal year, the fund balance of the general fund was \$12,869,351. The unreserved fund balance of \$9,183,018 or 71.36 percent of this total amount is available for spending at the government's discretion. The remainder of fund balance is reserved or designated to indicate that it is not available for new spending because it has already been committed as follows: 1) Inventory (\$787,008), 2) Prepaid Items (\$1,210,278), 3) Outstanding Encumbrances (\$411,441), 4) Reserve for Food Service (\$277,606) and 5) Other Designated Fund Balance (\$1,000,000).

General Fund Budgetary Highlights

Over the course of the year, the District revised its budget several times. At year-end, actual expenditures were \$2,814,408 below final budget amounts.

Resources available were \$1,850,221 more than the final budgeted amount.

- Property taxes revenue experienced an increase from original estimates.
- Increase in state revenues for Teacher's Retirement System on-behalf share amount, to include Medicare Part D share amount.
- Increase in SHARS revenues.

Following is a summary of amendments made to appropriations:

- Increase for 2008 encumbrances carried over to the 2009 fiscal year for the following items: Police Vehicles, Community Information HD Equipment and Cameras, Fine Arts Equipment Replacement and upgrade, Food Service Remodeling of Jackson Kitchen and Transportation Security Cameras.
- Increase in budget for Special Education salaries and expenditures.
- Increase in budget for Athletic Expenditures.
- Decrease to Fund Balance for current year additional needs approved by the Board.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2009, the District had invested \$206,225,720 in a broad range of capital assets, including land, equipment, buildings, and vehicles. (See Table A-4). In accordance with GASB 34, the District has recorded depreciation expense associated with all of its capital assets.

Table A-4
District's Capital Assets

	Governmental Activities		Business-type Activities		Total		Total Percentage Change 2009-08
	2009	2008	2009	2008	2009	2008	
Land	\$15,052,157	\$15,280,213	\$0	\$0	\$15,052,157	\$15,280,213	-1.49%
Buildings and improvements	237,299,718	220,885,912	0	0	237,299,718	220,885,912	7.43%
Construction in progress	3,491,870	3,864,012	0	0	3,491,870	3,864,012	-9.63%
Vehicles	6,973,696	6,693,223	0	0	6,973,696	6,693,223	4.19%
Equipment	9,195,339	8,555,428	82,206	82,206	9,277,545	8,637,634	7.41%
Capital lease-vehicles	29,099	29,099	0	0	29,099	29,099	0.00%
Totals at historical cost	\$272,041,879	\$255,307,887	\$82,206	\$82,206	\$272,124,085	\$255,390,093	6.55%
Total accumulated depreciation	65,816,159	60,536,209	63,755	56,232	65,879,914	60,592,441	8.73%
Net capital assets	\$206,225,720	\$194,771,678	\$18,451	\$25,974	\$206,244,171	\$194,797,652	5.88%

The District's fiscal year 2009 capital projects budget has a remaining available balance of \$932,743 for construction projects. As of August 31, 2009, the District has ongoing construction for Maintenance and Operations, Central Kitchen, Transportation and Activity Centers Buildings. More detailed information about the District's capital assets is presented in the notes to the financial statements.

Long Term Debt

Table A-5
District's Long Term Debt

	Governmental Activities		Business-type Activities		Total		Total Percentage Change 2009-08
	2009	2008	2009	2008	2009	2008	
Leases Payable	\$1,355,504	\$470,881	\$0	\$0	\$1,355,504	\$470,881	187.87%
Bonds and Notes Payable:							
General Obligation Debt	123,879,931	127,964,186			\$123,879,931	\$127,964,186	-3.19%
Equipment Note	538,317	685,944			\$538,317	\$685,944	-21.52%
Total Bonds and Notes Payable	124,418,248	128,650,130	0	0	\$124,418,248	\$128,650,130	-3.29%
Total Long Term Debt Payable	\$125,773,752	\$129,121,011	\$0	\$0	\$125,773,752	\$129,121,011	-2.59%

At year-end the District had \$125,773,752 in long-term debt outstanding. This represents a decrease of 2.59 percent over last year as shown in Table A-5. More detailed information about the District's debt is presented in the Notes to the Financial Statements.

Bond Ratings

The District's bonds presently carry "AAA" ratings with underlying ratings from Moody's Investor Services "A3", Standard & Poor's "A" and Fitch "A+".

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- The freeze adjusted taxable value used for the 2010 budget increased by \$247,217,355, or 4.51% from \$5,481,680,253 to \$5,728,897,608.
- General operating fund revenue per student increased in the 2010 budget from \$8,189 to \$8,231.
- The District's 2010 budget was planned on 23,055 refined average daily attendance, up 20 from the final 2008-09 budget, a 0.08% increase.

These indicators were taken into account when adopting the general fund budget for 2010. Amounts available for appropriation in the general fund budget are \$189,785,687, an increase of 3.74 percent over the final 2009 budget of \$182,951,801. The 2009-10 budget approved by the Board of Trustees is a balanced budget.

Expenditures are budgeted to decrease 1.79 percent to \$189,785,687 as compared to the 2009 final budget of \$193,252,604. The District has opted to maintain 2010 fiscal year expenditures at the same level as 2008-09.

If these estimates are realized, the District's budgetary general fund balance should remain the same by the close of 2010.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Office of the Chief Financial Officer, McAllen I.S.D., 2000 North 23rd Street, McAllen, Texas 78501.

BASIC FINANCIAL STATEMENTS

MCALLEN INDEPENDENT SCHOOL DISTRICT
Annual Financial Report for
The Year Ended August 31, 2009

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MCALLEN INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET ASSETS
AUGUST 31, 2009

Data Control Codes	1 Governmental Activities	2 Business-type Activities	3 Total	
ASSETS:				
1110	Cash and Cash Equivalents	\$ 30,648,118	\$ 602,653	\$ 31,250,771
1225	Property Taxes Receivable (Net)	7,576,862	--	7,576,862
1240	Due from Other Governments	11,559,543	--	11,559,543
1260	Internal Balances	54,648	(54,648)	--
1267	Due from Fiduciary	365	--	365
1290	Other Receivables (Net)	2,491,253	450	2,491,703
1300	Inventories	975,484	--	975,484
1410	Deferred Expenses	1,317,870	--	1,317,870
1420	Capitalized Bond and Other Debt Issuance Costs	803,074	--	803,074
Capital Assets:				
1510	Land	15,052,157	--	15,052,157
1520	Buildings and Improvements, Net	182,196,923	--	182,196,923
1530	Furniture and Equipment, Net	5,463,946	18,451	5,482,397
1550	Capital Lease Assets, Net	20,824	--	20,824
1580	Construction in Progress	3,491,870	--	3,491,870
1000	Total Assets	<u>261,652,937</u>	<u>566,906</u>	<u>262,219,843</u>
LIABILITIES:				
2110	Accounts Payable	4,263,947	1,562	4,265,509
2140	Interest Payable	290,981	--	290,981
2165	Accrued Liabilities	18,030,780	2,594	18,033,374
2180	Due to Other Governments	101,904	--	101,904
2300	Unearned Revenue	2,842,516	5,783	2,848,299
Noncurrent Liabilities:				
2501	Due Within One Year	5,826,700	--	5,826,700
2502	Due in More Than One Year	120,346,933	--	120,346,933
2000	Total Liabilities	<u>151,703,761</u>	<u>9,939</u>	<u>151,713,700</u>
NET ASSETS				
3200	Invested in Capital Assets, Net of Related Debt Restricted For:	95,601,055	18,451	95,619,506
3820	State and Federal Programs	2,697,710	--	2,697,710
3850	Debt Service	1,589,541	--	1,589,541
3870	Campus Activities	775,344	--	775,344
3900	Unrestricted	9,285,526	538,516	9,824,042
3000	Total Net Assets	<u>\$ 109,949,176</u>	<u>\$ 556,967</u>	<u>\$ 110,506,143</u>

The accompanying notes are an integral part of this statement.

MCALLEN INDEPENDENT SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2009

Data Control Codes	Functions/Programs	1 Expenses	3 Charges for Services	4 Program Revenues		5 Capital Grants and Contributions
				Operating Grants and Contributions		
	Governmental Activities:					
11	<i>Instruction</i>	\$ 131,973,437	\$ 3,295,371	\$ 29,109,789	\$ --	
12	<i>Instructional Resources and Media Services</i>	4,448,101	21,508	480,714	17,018	
13	<i>Curriculum and Staff Development</i>	4,156,696	5,341	2,399,772	--	
21	<i>Instructional Leadership</i>	3,535,241	158,793	1,100,840	--	
23	<i>School Leadership</i>	11,853,184	72,543	1,379,765	--	
31	<i>Guidance, Counseling, & Evaluation Services</i>	10,079,681	91,584	2,268,660	35,780	
32	<i>Social Work Services</i>	1,703,876	--	713,509	--	
33	<i>Health Services</i>	2,973,683	7,893	809,366	--	
34	<i>Student Transportation</i>	3,291,024	17	256,850	--	
35	<i>Food Service</i>	12,012,365	1,500,957	10,240,396	10,895	
36	<i>Cocurricular/Extracurricular Activities</i>	6,849,204	593,696	203,226	--	
41	<i>General Administration</i>	5,103,477	5	568,161	--	
51	<i>Plant Maintenance and Operations</i>	21,471,197	810	493,029	--	
52	<i>Security and Monitoring Services</i>	3,053,185	--	448,841	49,655	
53	<i>Data Processing Services</i>	2,414,951	--	120,718	--	
61	<i>Community Services</i>	1,532,876	1,814	1,466,207	--	
72	<i>Interest on Long-term Debt</i>	5,760,665	--	2,361,199	--	
73	<i>Bond Issuance Costs and Fees</i>	8,588	--	--	--	
95	<i>Payments to Juvenile Justice Alternative Ed. Program</i>	9,954	--	--	--	
99	<i>Other Intergovernmental Charges</i>	589,168	--	11	--	
TG	Total Governmental Activities	<u>232,820,553</u>	<u>5,750,332</u>	<u>54,421,053</u>	<u>113,348</u>	
	Business-type Activities:					
01	<i>Project Safe and Secure</i>	398,998	487,853	--	--	
TP	Total Primary Government	<u>\$ 233,219,551</u>	<u>\$ 6,238,185</u>	<u>\$ 54,421,053</u>	<u>\$ 113,348</u>	
	General Revenues:					
MT	<i>Property Taxes, Levied for General Purposes</i>					
DT	<i>Property Taxes, Levied for Debt Service</i>					
IE	<i>Investment Earnings</i>					
GC	<i>Grants and Contributions Not Restricted to Specific Programs</i>					
MI	<i>Miscellaneous</i>					
FR	<i>Transfers</i>					
TR	Total General Revenues					
CN	Change in Net Assets					
NB	Net Assets - Beginning					
NE	Net Assets - Ending					

The accompanying notes are an integral part of this statement.

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Net (Expense) Revenue and Changes in Net Assets

<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
\$ (99,568,277)		\$ (99,568,277)
(3,928,861)		(3,928,861)
(1,751,583)		(1,751,583)
(2,275,608)		(2,275,608)
(10,400,876)		(10,400,876)
(7,683,657)		(7,683,657)
(990,367)		(990,367)
(2,156,424)		(2,156,424)
(3,034,157)		(3,034,157)
(260,117)		(260,117)
(6,052,282)		(6,052,282)
(4,535,311)		(4,535,311)
(20,977,358)		(20,977,358)
(2,554,689)		(2,554,689)
(2,294,233)		(2,294,233)
(64,855)		(64,855)
(3,399,466)		(3,399,466)
(8,588)		(8,588)
(9,954)		(9,954)
(589,157)		(589,157)
<u>(172,535,820)</u>		<u>(172,535,820)</u>
--	\$ 88,855	88,855
<u>(172,535,820)</u>	<u>88,855</u>	<u>(172,446,965)</u>
64,179,747	--	64,179,747
6,501,492	--	6,501,492
938,272	--	938,272
96,248,309	--	96,248,309
90,147	3,299	93,446
56,102	(56,102)	--
<u>168,014,069</u>	<u>(52,803)</u>	<u>167,961,266</u>
(4,521,751)	36,052	(4,485,699)
114,470,927	520,915	114,991,842
<u>\$ 109,949,176</u>	<u>\$ 556,967</u>	<u>\$ 110,506,143</u>

MCALLEN INDEPENDENT SCHOOL DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS

AUGUST 31, 2009

Data Control Codes	10 General Fund	Other Governmental Funds	98 Total Governmental Funds	
ASSETS:				
1110	Cash and Cash Equivalents	\$ 15,482,674	\$ 5,613,268	\$ 21,095,942
1225	Taxes Receivable, Net	7,025,622	551,240	7,576,862
1240	Due from Other Governments	6,348,755	5,210,788	11,559,543
1260	Due from Other Funds	558,268	415,767	974,035
1290	Other Receivables	95,912	316,028	411,940
1300	Inventories	975,486	--	975,486
1410	Deferred Expenditures	1,210,278	208	1,210,486
1000	Total Assets	<u>\$ 31,696,995</u>	<u>\$ 12,107,299</u>	<u>\$ 43,804,294</u>
LIABILITIES:				
Current Liabilities:				
2110	Accounts Payable	\$ 2,734,805	\$ 1,332,774	\$ 4,067,579
2150	Payroll Deductions & Withholdings	2,825	--	2,825
2160	Accrued Wages Payable	6,631,091	3,281,504	9,912,595
2170	Due to Other Funds	530,670	521,708	1,052,378
2180	Due to Other Governments	101,123	781	101,904
2200	Accrued Expenditures	--	938,789	938,789
2300	Unearned Revenue	8,827,130	811,328	9,638,458
2000	Total Liabilities	<u>18,827,644</u>	<u>6,886,884</u>	<u>25,714,528</u>
FUND BALANCES:				
Reserved Fund Balances:				
3410	Investments in Inventory	787,008	--	787,008
3420	Debt Service	--	1,359,315	1,359,315
3430	Prepaid Items	1,210,278	--	1,210,278
3440	Outstanding Encumbrances	411,441	--	411,441
3450	Reserve for Food Service	277,606	--	277,606
3490	Other Reserves of Fund Balance	--	3,861,102	3,861,102
Designated Fund Balance:				
3590	Other Designated Fund Balance	1,000,000	--	1,000,000
3600	Unreserved	9,183,018	--	9,183,018
3000	Total Fund Balances	<u>12,869,351</u>	<u>5,220,417</u>	<u>18,089,768</u>
4000	Total Liabilities and Fund Balances	<u>\$ 31,696,995</u>	<u>\$ 12,107,301</u>	<u>\$ 43,804,296</u>

The accompanying notes are an integral part of this statement.

MCALLEN INDEPENDENT SCHOOL DISTRICT
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET ASSETS
 AUGUST 31, 2009

Total fund balances - governmental funds balance sheet	\$ 18,089,768
Amounts reported for governmental activities in the statement of net assets ("SNA") are different because:	
Capital assets used in governmental activities are not reported in the funds.	206,189,259
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	6,795,942
The assets and liabilities of internal service funds are included in governmental activities in the SNA.	4,535,748
Payables for bond principal and related accounts are not due in the current period are not reported in the funds.	(123,879,932)
Payables for capital leases which are not due in the current period are not reported in the funds.	(1,355,504)
Payables for debt interest which are not due in the current period are not reported in the funds.	(290,981)
Payables for notes which are not due in the current period are not reported in the funds.	(538,317)
Payables for compensated absences which are not due in the current period are not reported in the funds.	(399,880)
Bond issuance costs amortized for SOA but not in the funds.	803,074
Rounding difference	(1)
Net assets of governmental activities - statement of net assets	<u>\$ 109,949,176</u>

The accompanying notes are an integral part of this statement.

MCALLEN INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2009

Data Control Codes	10 General Fund	Other Governmental Funds	98 Total Governmental Funds
REVENUES:			
5700 <i>Local and Intermediate Sources</i>	\$ 66,607,722	\$ 10,804,384	\$ 77,412,106
5800 <i>State Program Revenues</i>	105,108,355	11,581,950	116,690,305
5900 <i>Federal Program Revenues</i>	12,033,699	21,251,338	33,285,037
5020 Total Revenues	<u>183,749,776</u>	<u>43,637,672</u>	<u>227,387,448</u>
EXPENDITURES:			
Current:			
0011 <i>Instruction</i>	104,527,663	24,681,956	129,209,619
0012 <i>Instructional Resources and Media Services</i>	4,058,795	313,552	4,372,347
0013 <i>Curriculum and Staff Development</i>	1,797,172	2,317,058	4,114,230
0021 <i>Instructional Leadership</i>	2,477,545	1,028,011	3,505,556
0023 <i>School Leadership</i>	10,770,639	946,752	11,717,391
0031 <i>Guidance, Counseling, & Evaluation Services</i>	8,258,216	1,783,129	10,041,345
0032 <i>Social Work Services</i>	917,853	771,318	1,689,171
0033 <i>Health Services</i>	2,241,476	704,963	2,946,439
0034 <i>Student Transportation</i>	2,892,420	25,127	2,917,547
0035 <i>Food Service</i>	11,629,778	214,865	11,844,643
0036 <i>Cocurricular/Extracurricular Activities</i>	6,152,735	298,222	6,450,957
0041 <i>General Administration</i>	4,994,665	--	4,994,665
0051 <i>Plant Maintenance and Operations</i>	19,885,623	89,492	19,975,115
0052 <i>Security and Monitoring Services</i>	2,810,622	322,389	3,133,011
0053 <i>Data Processing Services</i>	2,025,537	--	2,025,537
0061 <i>Community Services</i>	60,447	1,460,377	1,520,824
0071 <i>Principal on Long-term Debt</i>	496,185	4,443,003	4,939,188
0072 <i>Interest on Long-term Debt</i>	46,179	5,532,965	5,579,144
0073 <i>Bond Issuance Costs and Fees</i>	--	8,590	8,590
0081 <i>Capital Outlay</i>	3,795,524	12,452,150	16,247,674
0095 <i>Payments to Juvenile Justice Alternative</i>			
0095 <i>Education Programs</i>	9,954	--	9,954
0099 <i>Other Intergovernmental Charges</i>	589,168	--	589,168
6030 Total Expenditures	<u>190,438,196</u>	<u>57,393,919</u>	<u>247,832,115</u>
1100 Excess (Deficiency) of Revenues Over (Under)			
1100 Expenditures	<u>(6,688,420)</u>	<u>(13,756,247)</u>	<u>(20,444,667)</u>
Other Financing Sources and (Uses):			
7912 <i>Sale of Real or Personal Property</i>	22,648	--	22,648
7913 <i>Proceeds from Capital Leases</i>	827,498	482,673	1,310,171
7914 <i>Non-Current Loan Proceeds</i>	141,012	--	141,012
7915 <i>Transfers In</i>	56,102	--	56,102
7949 <i>Other Resources</i>	4,986	--	4,986
7080 Total Other Financing Sources and (Uses)	<u>1,052,246</u>	<u>482,673</u>	<u>1,534,919</u>
1200 Net Change in Fund Balances	<u>(5,636,174)</u>	<u>(13,273,574)</u>	<u>(18,909,748)</u>
0100 Fund Balances - Beginning	<u>18,505,525</u>	<u>18,493,991</u>	<u>36,999,516</u>
3000 Fund Balances - Ending	<u>\$ 12,869,351</u>	<u>\$ 5,220,417</u>	<u>\$ 18,089,768</u>

The accompanying notes are an integral part of this statement.

MCALLEN INDEPENDENT SCHOOL DISTRICT
*RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED AUGUST 31, 2009*

Net change in fund balances - total governmental funds	\$ (18,909,748)
Amounts reported for governmental activities in the statement of activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	17,052,014
The depreciation of capital assets used in governmental activities is not reported in the funds.	(5,319,400)
Trade-in or disposal of capital assets decrease net assets in the SOA but not in the funds.	(273,500)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	672,020
Revenues in the SOA not providing current financial resources are not reported as revenues in the funds.	(1,451,183)
Bond premiums are amortized in the SOA not in the funds.	203,918
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.	4,225,000
Repayment of capital lease principal is an expenditure in the funds but is not an expense in the SOA.	425,549
Repayment of loan principal is an expenditure in the funds but is not an expense in the SOA.	288,639
Bond issuance costs and similar items are amortized in the SOA but not in the funds.	(49,114)
The accretion of interest on capital appreciation bonds is not reported in the funds.	(348,263)
(Increase) decrease in accrued interest from beginning of period to end of period.	8,340
The net revenue (expense) of internal service funds is reported with governmental activities.	(988,160)
Compensated absences are reported as the amount earned in the SOA but as the amount paid in the funds.	(61,463)
Refunding gain amortized in SOA not in the funds.	3,600
Change in net assets of governmental activities - statement of activities	\$ <u>(4,521,751)</u>

The accompanying notes are an integral part of this statement.

MCALLEN INDEPENDENT SCHOOL DISTRICT

STATEMENT OF NET ASSETS

PROPRIETARY FUNDS

AUGUST 31, 2009

Data Control Codes	Nonmajor Enterprise Fund <u>Project Safe and Secure</u>	Internal Service Funds <u> </u>
ASSETS:		
Current Assets:		
1110	\$ 602,653	\$ 9,552,176
Receivables:		
1260	2,556	179,138
1290	450	2,079,313
1410	--	107,384
	<u>605,659</u>	<u>11,918,011</u>
Noncurrent Assets:		
Capital Assets:		
1530	82,206	53,859
1570	(63,755)	(17,399)
	<u>18,451</u>	<u>36,460</u>
1000	<u>\$ 624,110</u>	<u>\$ 11,954,471</u>
LIABILITIES:		
Current Liabilities:		
2110	\$ 1,562	\$ 196,368
2160	2,594	--
2170	57,204	45,784
2200	--	7,176,571
2300	5,783	--
	<u>67,143</u>	<u>7,418,723</u>
2000	<u>67,143</u>	<u>7,418,723</u>
NET ASSETS:		
3200	18,452	36,460
3900	538,515	4,499,288
3000	<u>\$ 556,967</u>	<u>\$ 4,535,748</u>

The accompanying notes are an integral part of this statement.

MCALLEN INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET ASSETS - PROPRIETARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2009

Data Control Codes	Nonmajor Enterprise Fund	Project Safe and Secure	Internal Service Funds
OPERATING REVENUES:			
5700 <i>Local and Intermediate Sources</i>	\$	489,177	\$ 22,543,970
5800 <i>State Program Revenues</i>		1,975	--
5020 <i>Total Revenues</i>		<u>491,152</u>	<u>22,543,970</u>
OPERATING EXPENSES:			
6100 <i>Payroll Costs</i>		336,695	23,511,735
6200 <i>Professional and Contracted Services</i>		3,400	113,154
6300 <i>Supplies and Materials</i>		39,776	57,766
6400 <i>Other Operating Costs</i>		19,127	5,073
6030 <i>Total Expenses</i>		<u>398,998</u>	<u>23,687,728</u>
Operating Income (Loss)		<u>92,154</u>	<u>(1,143,758)</u>
NON-OPERATING REVENUES (EXPENSES):			
7955 <i>Earnings from Temp. Deposits and Investments</i>		--	155,598
8030 <i>Total Non-operating Revenues (Expenses)</i>		<u>--</u>	<u>155,598</u>
Income (Loss) before Contributions and Transfers		92,154	(988,160)
8911 <i>Transfers Out</i>		<u>(56,102)</u>	--
1300 <i>Change in Net Assets</i>		36,052	<u>(988,160)</u>
0100 <i>Total Net Assets - Beginning</i>		520,915	5,523,908
3300 <i>Total Net Assets - Ending</i>	\$	<u><u>556,967</u></u>	\$ <u><u>4,535,748</u></u>

The accompanying notes are an integral part of this statement.

MCALLEN INDEPENDENT SCHOOL DISTRICT

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

FOR THE YEAR ENDED AUGUST 31, 2009

	Nonmajor Enterprise Fund	Internal Service Funds
Cash Flows from Operating Activities:		
<i>Cash Received from Customers</i>	\$ 464,144	\$ --
<i>Cash Received from Grants</i>	1,975	--
<i>Cash Receipts (Payments) for Quasi-external Operating Transactions with Other Funds</i>	--	21,442,768
<i>Cash Payments to Employees for Services</i>	(334,495)	--
<i>Cash Payments to Other Suppliers for Goods and Services</i>	(60,385)	(136,481)
<i>Cash Payments for Claims</i>	--	(23,511,735)
Net Cash Provided (Used) by Operating Activities	<u>71,239</u>	<u>(2,205,448)</u>
Cash Flows from Investing Activities:		
<i>Interest on bank account</i>	--	155,598
Net Cash Provided (Used) for Investing Activities	<u>--</u>	<u>155,598</u>
Net Increase (Decrease) in Cash and Cash Equivalents	71,239	(2,049,850)
Cash and Cash Equivalents at Beginning of Year	531,414	11,602,026
Cash and Cash Equivalents at End of Year	<u>\$ 602,653</u>	<u>\$ 9,552,176</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating Income (Loss)	\$ 92,154	\$ (1,143,758)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities		
<i>Depreciation</i>	7,523	5,073
Change in Assets and Liabilities:		
<i>Decrease (Increase) in Receivables</i>	(3,006)	(1,126,763)
<i>Decrease (Increase) in Prepaid Expenses</i>	--	58,758
<i>Increase (Decrease) in Accounts Payable</i>	(4,892)	(24,319)
<i>Increase (Decrease) in Accrued Wages Payable</i>	394	--
<i>Increase (Decrease) in Interfund Payables</i>	1,093	18,034
<i>Increase (Decrease) in Accrued Expenses</i>	--	7,527
<i>Increase (Decrease) in Unearned Revenue</i>	(22,027)	--
Total Adjustments	<u>(20,915)</u>	<u>(1,061,690)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 71,239</u>	<u>\$ (2,205,448)</u>

The accompanying notes are an integral part of this statement.

MCALLEN INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
AUGUST 31, 2009

Data Control Codes	Pension Trust Fund	Agency Funds
ASSETS:		
1110 <i>Cash and Cash Equivalents</i>	\$ --	\$ 804,542
1120 <i>Current Investments</i>	456,988	--
1000 Total Assets	<u>\$ 456,988</u>	<u>\$ 804,542</u>
LIABILITIES:		
Current Liabilities:		
2110 <i>Deposits</i>	\$ --	\$ 11,227
2170 <i>Due to Other Funds</i>	--	365
2190 <i>Due to Student Groups</i>	--	792,950
2000 Total Liabilities	<u>--</u>	<u>804,542</u>
NET ASSETS		
3800 <i>Held in Trust for Pension Benefits</i>	456,988	--
3000 Total Net Assets	<u>\$ 456,988</u>	<u>\$ --</u>

The accompanying notes are an integral part of this statement.

MCALLEN INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2009

	457 Plan
Additions:	
Investment Income	\$ 6,457
Total Additions	<u>6,457</u>
Deductions:	
Benefits	82,839
Total Deductions	<u>82,839</u>
Change in Net Assets	(76,382)
Net Assets-Beginning of the Year	533,369
Net Assets-End of the Year	<u>\$ 456,987</u>

The accompanying notes are an integral part of this statement.

MCALLEN INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
August 31, 2009

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NOTE 1 - REPORTING ENTITY

Membership of Board - The Board of Trustees includes seven eligible members elected at large by the qualified voters of the McAllen Independent School District. The governing Board derives its powers from the statutes of the State of Texas and the rules and regulations of the Texas State Department of Education. The District receives funding from local, state and federal government sources and must comply with the requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined by GASB statement No.14 The Financial Reporting Entity. The District has no component units.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

McAllen Independent School District's (the "District") basic financial statements have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units in conjunction with the Texas Education Agency's Financial Accountability System Resource Guide (the "Resource Guide"). The Governmental Accounting Standards Board (GASB) is the accepted standards setting body for establishing governmental accounting and financial reporting principles.

A. Basis of Presentation

Government-Wide Statements:

The statement of net assets and the statement of activities include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions are reported separately from business – type activities, which rely to a significant extent on fees and charges for support.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The District does not allocate indirect expenses in the statement of activities.

Program revenues include:

- (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and
- (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program.

Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

MCALLEN INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
August 31, 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

Fund Financial Statements:

The fund financial statements provide information about the District's funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as Nonmajor funds "Other Governmental Funds."

The District reports the following major governmental fund:

General Fund. This is the District's primary operating fund. It accounts for all financial resources of the District except those required to be accounted for in another fund.

Additionally, the District reports the following fund types:

Proprietary Fund Types include:

The Enterprise Fund, an unbudgeted fund, accounts for the District's project safe and secure program.

The Internal Service Fund, an unbudgeted fund, accounts for the operations of a print shop, self-funded health and worker's compensation insurance and unemployment claims. These funds account for services to other District funds, as well as, related operating expenses.

In addition, the District reports the following fund types:

Agency Funds. These funds are used to report student activity funds and other resources held in a purely custodial capacity (assets equal liabilities). The Agency funds typically involve only the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments.

Fiduciary Funds. These are reported in the fund financial statements. However, because their assets are held in a trustee or agent capacity and are therefore not available to support District programs, these funds are not included in the government-wide statements. The District maintains the assets for the 457 Plan.

MCALLEN INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
August 31, 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Accounting/Measurement Focus

Government-wide and Fiduciary Fund Financial Statements:

These financial statements are reported using the economic resources measurement focus. The government-wide, proprietary fund and fiduciary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements:

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they become available and measurable. The District considers revenues as available if they are collected within the 60 days after year end. Revenues susceptible to accrual are property taxes, fiscal year state funding, and interest revenues. All other revenue items are considered to be measurable and available only when cash is received by the government. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

When the District incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the District's policy to use restricted resources first, then unrestricted resources.

Unearned revenue is reported in the governmental funds when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Unearned revenues also arise when resources are received by the government before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures.

In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for unearned revenue is removed and revenue is recognized.

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. The principal operating revenues of the District's enterprise fund, and of the District's internal services funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

MCALLEN INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
August 31, 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Revenues

Substantially all governmental fund revenues are accrued. Property taxes are billed and collected within the same period in which the taxes are levied. Subsidies and grants to proprietary funds, which finance either capital or current operations, are reported as nonoperating revenue based on GASBS No. 33. In applying GASBS No. 33 to grant revenues, the provider recognizes liabilities and expenses and the recipient recognizes receivables and revenue when the applicable eligibility requirements, including time requirements, are met. Resources transmitted before the eligibility requirements are met are reported as advances by the provider and unearned revenue by the recipient.

D. Expenditures

Expenditures are recognized when the related fund liability is incurred. Inventory costs are reported in the period when inventory items are used, rather than in the period purchased.

E. Cash and Cash Equivalents

For the purposes of the statement of cash flows, investments are considered to be cash equivalents if they are highly liquid with maturity within three months or less.

F. Investments

Money market investments which are short-term, highly liquid debt instruments including commercial paper, banker's acceptances and U.S. Treasury and agency obligations are reported at amortized cost. Nonparticipating interest-earning investment contracts are reported using a cost-based measure. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes. All other investments are reported at fair value.

G. Receivables and Payables

Interfund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers In and Transfers Out are netted and presented as a single "Transfers" line on the government-wide statement of activities. Similarly, interfund receivables and payables are netted and presented as a single "Internal Balances" line of the government-wide statement of net assets.

All trade and property tax receivables are shown net of an allowance for uncollectible. Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property in the District in conformity with Subtitle E, Texas Property Code. Taxes are due upon receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed.

MCALLEN INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
August 31, 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Receivables and Payables (Continued)

Delinquent taxes are prorated between the general and debt service funds based on rates adopted for the year of the levy. Allowance for uncollectible tax receivables are based on historical experience in collecting property taxes.

Accrued liabilities primarily consist of amounts accrued for salaries and for self-insurance claims.

H. Inventory

Inventory is valued at cost (average). The District accounts for school supply and food inventories by using the consumption method whereby expenditures are recognized only when inventory items are used. Maintenance supplies inventory is accounted for by using the purchase method whereby purchases of inventories are recognized as expenditures when the goods are received and the transaction is vouchered. Reported inventories are equally offset by a fund balance reserve in the fund level statements which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets. Commodity inventory is offset by unearned revenue.

I. Other Current Assets

Other current assets are prepaid expenses that will benefit periods beyond August 31, 2009. This amount includes prepaid expenses for unexpired insurance policy premiums paid by August 31, 2009 which extend beyond that date. In the fund financial statements, the reported prepaid insurance is equally offset by a fund balance reserve, which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

J. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements.

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. A capitalization threshold of \$5,000 is used.

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Infrastructure	15
Buildings & Improvements	75
Vehicles/Buses	5-10
Furniture and Equipment	5-10

MCALLEN INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
August 31, 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Use of Estimates

The preparation of financial statements in conformity with GAAP requires the use of management's estimates.

L. Compensated Absences

All sick pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in the fund financial statements only if they have matured, for example, as a result of employee retirement.

M. Long-term obligations

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

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Refunding gain or loss is amortized over the lesser of the refunded bonds or the new debt.

N. Fund Equity

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

O. Internal Service Fund Activity

Because the principal users of the internal service activities are the District's governmental activities, the financial statement of the internal service fund is consolidated into the governmental column when presented in the government-wide financial statements. Only the net profit or loss before investment income is allocated to the operating programs benefited. The investment income is combined with other unrestricted income as general revenue in the statement of activities.

MCALLEN INDEPENDENT SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 August 31, 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

P. Accounting System

In accordance with the Resource Guide, the District has adopted and installed an accounting system which meets at least the minimum requirements prescribed by the State Board of Education and approved by the State Auditor. Specifically, the District's accounting system uses codes and the code structure prescribed by Texas Education Agency (TEA) in the Resource Guide. Mandatory codes are recorded in the order provided in that section.

Q. Data Control Codes

Data Control Codes appear in the rows and above the columns of certain financial statements. The TEA requires the display of these codes in the financial statements filed with TEA in order to insure accuracy in building a statewide database for policy development and funding plans.

B. COMPLIANCE AND ACCOUNTABILITY

NOTE 3 – FINANCE-RELATED LEGAL AND CONTRACTUAL PROVISION

In accordance with GASB Statement No. 38, "Certain Financial Statement Note Disclosures," violations of finance related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

Expenditures Exceeding Appropriations

During the year ended August 31, 2009 the District did not have expenditures exceeding budgets in Debt Service Fund. In the General Fund, the District has expenditures exceeding budgets as follows:

Function	Excess
53 - Data Processing Services	\$ 21,908
Expenditures Exceeding Appropriations	\$ 21,908

These expenditures were funded by other revenues in the General Fund.

Deficit Fund Balance or Fund Net Assets of Individual Funds

Following are funds having deficit fund balances or fund net assets at year end, if any, along with remarks which address such deficits:

Fund Name	Deficit Amount	Remarks
None reported	Not applicable	Not applicable

MCALLEN INDEPENDENT SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 August 31, 2009

C. DETAILED NOTES ON ALL FUNDS

NOTE 4 - PROPERTY TAXES

Property taxes are levied by October 1 in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available when they become due or past due and receivable within the current period and those expected to be collected during a 60 day period after the close of the District's fiscal year.

The District's 2008 tax rate was \$1.04 for maintenance and \$.105 for debt service per \$100 assessed valuation. Allowances for uncollectible within the General and Debt Service Funds are based upon historical experience in collecting property taxes. The assessed valuation of \$5,831,870,139 used to determine the tax rates represents 100% of the fair market value of the property. Education Code section 45.003 limits a school district's M&O rate for any year. The rate may not exceed the rate equal to the sum of \$0.17 and the product of the state compression percentage as determined by Section 42.2516 multiplied by \$1.50. The Education Code requires school districts to demonstrate to the Texas Attorney General the projected ability to pay all debt issued after September 1, 1992, with a rate not to exceed \$0.50.

Taxes Receivable at August 31, 2009, was as follows:

	Total Receivable	Less: Allowance for Uncollectible	Net Receivable
General Fund	\$ 8,346,788	\$ 1,321,166	\$ 7,025,622
Debt Service Fund	797,837	246,597	551,240
	\$ 9,144,625	\$ 1,567,763	\$ 7,576,862

NOTE 5 - DEPOSITS, SECURITIES AND INVESTMENTS

Deposits

The District's funds are required to be deposited and invested under the terms of a depository contract pursuant to the School Depository Act. During the year, the District maintained either a letter of credit or the depository bank placed approved pledged securities with the District's agent bank to cover the bank deposits as authorized by Chapter 2257, Collateral for Public Funds of the Government Code, in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation (FDIC).

At year-end, the carrying amount of the District's deposits (cash and interest-bearing savings accounts of \$456,988) was \$32,406,020 and the bank balance of \$34,070,349.

MCALLEN INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
August 31, 2009

NOTE 5 - DEPOSITS, SECURITIES AND INVESTMENTS (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the District's name. The District's cash deposits at August 31, 2009 and during the year ended August 31, 2009 were entirely covered by a letter of credit, FDIC insurance or by pledged securities collateral held in the District's name by a bank other than the pledging bank.

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

- a. Name of Bank: BBVA Compass Bank
- b. The amount of letters of credit as of the date of the highest combined balance on deposit was \$88,000,000.
- c. The largest combined balances of cash and savings accounts amounted to \$61,526,109 and occurred during the month of February.
- d. Total amount of FDIC coverage at the time of the largest combined balance was \$250,000.

Investments

The District's investment policies and types of investments are governed by the Public Funds Investments Act ("Act") of 1995. The following types of investment instruments are authorized:

- 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 as permitted by Government Code 2256.011
- 4) A securities lending program as permitted by Government Code 2256.0115
- 5) Banker's acceptances as permitted by Government Code 2256.012
- 6) Commercial paper as permitted by Government Code 2256.013
- 7) No-load money market mutual funds and no-load mutual funds as permitted by Government Code 2256.014
- 8) A guaranteed investment contract as an investment vehicle for bond proceeds, provided it meets the criteria and eligibility requirements as established by Government Code 2256.015
- 9) Public funds investment pools as permitted by Government Code 2256.016

The Act requires an annual review of the investment policy and investment strategy. The District's management believes that it complied with the requirements of the Act and the District's investment policies.

The District did not have investments at August 31, 2009. During the year the District had investments in repurchase agreements with the highest balance being \$15,429,834.

MCALLEN INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
August 31, 2009

NOTE 5 - DEPOSITS, SECURITIES AND INVESTMENTS (Continued)

The following is a reconciliation of the District's total cash:

Deposits		\$ 32,406,020	
Petty Cash		6,281	
Cash with Paying Agent		100,000	
	Total	<u>\$ 32,512,301</u>	
Exhibit A-1			
Cash and cash equivalents		\$ 31,250,771	
	Total Exhibit A-1	31,250,771	
Fiduciary cash and cash equivalents		804,542	
Fiduciary current investments		456,988	
	Total	<u>\$ 32,512,301</u>	

NOTE 6 – CAPITAL ASSETS

Capital asset activity for the year ended August 31, 2009, was as follows:

Governmental Activities	Balance 9/1/08	Increases	Reclassification Decreases	Balance 8/31/09
Capital assets, not being depreciated:				
Land	\$ 15,280,213	\$ 5,062	\$ (233,118)	\$ 15,052,157
Construction in Progress	3,864,012	14,600,916	(14,973,058)	3,491,870
	<u>19,144,225</u>	<u>14,605,978</u>	<u>(15,206,176)</u>	<u>18,544,027</u>
Capital assets being depreciated:				
Buildings and Improvements	220,885,912	1,481,129	14,932,677	237,299,718
Furniture and Equipment	8,555,428	665,570	(25,659)	9,195,339
Vehicles	6,693,223	299,337	(18,864)	6,973,696
Property Under Capital Lease	29,099	-	-	29,099
	<u>236,163,662</u>	<u>2,446,036</u>	<u>14,888,154</u>	<u>253,497,852</u>
Less accumulated depreciation for:				
Buildings and Improvements	51,090,534	4,012,261	-	55,102,795
Furniture and Equipment	4,821,288	916,377	(25,659)	5,712,006
Vehicles	4,620,867	391,080	(18,864)	4,993,083
Property Under Capital Lease	3,520	4,755	-	8,275
Total Accumulated Depreciation	<u>60,536,209</u>	<u>5,324,472</u>	<u>(44,523)</u>	<u>65,816,159</u>
Total Capital Assets being Depreciated (Net)	<u>175,627,453</u>	<u>(2,878,436)</u>	<u>14,843,631</u>	<u>187,681,693</u>
Governmental Activities Capital Assets (Net)	<u>\$ 194,771,678</u>	<u>\$ 11,727,542</u>	<u>\$ (362,545)</u>	<u>\$ 206,225,720</u>

\$273,500 of deletions is for streets that were constructed by the District, however, ownership passed to the City.

See Note 21 for remaining construction commitments.

At August 31, 2009 the District had the following Construction in progress:

Project	Amount
McAllen High School Activity Building	\$ 1,197,260
Memorial Activity Building	1,152,577
Nikki Rowe Activity Building	1,142,033
Total	<u>\$ 3,491,870</u>

MCALLEN INDEPENDENT SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 August 31, 2009

NOTE 6 – CAPITAL ASSETS (Continued)

Internal Service Fund capital assets detailed below are included with the Governmental Activities in the Statement of Net Assets and are included in the previous recap of governmental activities' capital assets.

	Internal Service Fund
Machinery and Equipment	\$ 53,859
Accumulated Depreciation	<u>(17,399)</u>
Net Capital Assets	<u>\$ 36,460</u>

Business-Type Activities Nonmajor Enterprise Fund	Balance 9/1/08	Increases	Decrease	Balance 8/31/09
Capital assets being depreciated:				
Furniture and Equipment	\$ 82,206	\$ -	\$ -	\$ 82,206
	<u>82,206</u>	<u>-</u>	<u>-</u>	<u>82,206</u>
Less accumulated depreciation for:				
Furniture and Equipment	56,232	7,523	-	63,755
Total Accumulated Depreciation	<u>56,232</u>	<u>7,523</u>	<u>-</u>	<u>63,755</u>
Total Capital Assets being Depreciated (Net)	<u>25,974</u>	<u>(7,523)</u>	<u>-</u>	<u>18,451</u>
Business-Type Activities Capital Assets (Net)	<u>\$ 25,974</u>	<u>\$ (7,523)</u>	<u>\$ -</u>	<u>\$ 18,451</u>

Depreciation was charged to the following functions:

Governmental Activities:

11 - Instruction	\$ 1,922,691
12 - Instruction and Instructional Related Services	149,632
13 - Curriculum & Instructional Staff Development	26,977
21 - Instructional Leadership	11,306
23 - School Leadership	71,305
31 - Guidance, Counseling, & Evaluation Service	32,826
32 - Social Work Services	6,912
33 - Health Services	11,300
34 - Student Transportation	339,871
35 - Food Services	229,767
36 - Cocurricular/Extracurricular	419,298
41 - General Administration	70,078
51 - Plant Maintenance and Operations	1,397,488
52 - Security and Monitoring Services	77,271
53 - Data Processing Services	549,653
61 - Community Services	<u>3,025</u>
	5,319,400

Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets.

Total depreciation expense-governmental activities

	5,072
	<u>\$ 5,324,472</u>

MCALLEN INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
August 31, 2009

NOTE 6 – CAPITAL ASSETS (Continued)

Business – Type Activities:

Nonmajor funds – Project Safe and Secure Depreciation \$ 7,523

NOTE 7 - INTERFUND RECEIVABLES/PAYABLES

Interfund receivable and payable balances at August 31, 2009 were:

Due to	Due From	
General Fund	Nonmajor Governmental Funds	\$ 558,268
Nonmajor Governmental Funds	General Fund	<u>415,767</u>
	Due From Other Funds	974,035
Internal Service Fund	General Fund	179,138
Nonmajor Enterprise Fund	General Fund	<u>2,556</u>
	Sub-Total	1,155,729
General Fund	Nonmajor Enterprise Fund	(57,204)
General Fund	Internal Service Fund	(45,784)
General Fund	Fiduciary Fund	<u>(365)</u>
	Due To Other Funds	<u>\$ 1,052,378</u>

The balances result from a routine lag between the dates that transactions such as year-end payroll accruals, worker’s compensation adjustments and other year-end accruals are recorded in the accounting system and payments between the funds are made. All amounts are scheduled to be repaid within one year.

Transfers between funds – The project safe and secure fund provided funds of \$56,102 to the General Fund.

NOTE 8 – DISAGGREGATION OF RECEIVABLES AND PAYABLES

Receivables and payables as of August 31, 2009 for the District’s individual major, nonmajor, and internal service funds in the aggregate are as follows:

	General Fund	Nonmajor Governmental Funds	Internal Service Fund	Total Governmental Funds	Nonmajor Enterprise Funds
Property Taxes	<u>\$ 7,025,622</u>	<u>\$ 551,240</u>	<u>\$ -</u>	<u>\$ 7,576,862</u>	<u>\$ -</u>
Other Receivables:					
Miscellaneous	\$ 95,912	\$ 1,633	\$ -	\$ 97,545	\$ 450
Other School Districts	-	135,975	-	135,975	-
UT-Pan American	-	178,420	-	178,420	-
Stop Loss Receivables	-	-	2,079,313	2,079,313	-
Total	<u>\$ 95,912</u>	<u>\$ 316,028</u>	<u>\$ 2,079,313</u>	<u>\$ 2,491,253</u>	<u>\$ 450</u>
Accrued Liabilities:					
Wages Payable	\$ 6,631,091	\$ 3,281,504	\$ -	\$ 9,912,595	\$ 2,594
Payroll Related Payables	2,825	-	-	2,825	-
Claims Payable	-	-	7,176,571	7,176,571	-
Arbitrage Payable	-	938,789	-	938,789	-
Total	<u>\$ 6,633,916</u>	<u>\$ 4,220,293</u>	<u>\$ 7,176,571</u>	<u>\$ 18,030,780</u>	<u>\$ 2,594</u>

MCALLEN INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
August 31, 2009

NOTE 8 – DISAGGREGATION OF RECEIVABLES AND PAYABLES (Continued)

Other Receivables do not have any allowances associated with them. See Note 14 for further detail regarding risk financing and claims payable.

NOTE 9 - DUE TO AND FROM OTHER GOVERNMENTS

Amounts due to and from other governments are reflected in the following funds:

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
<u>Due From Other Governments:</u>			
<u>Federal /State Funding:</u>			
Texas Education Agency	\$ 5,312,517	\$ 5,034,729	\$ 10,347,246
<u>Texas Department of Agriculture:</u>			
National School Lunch/Breakfast	320,748	-	320,748
ARRA	10,895	-	10,895
Others	17,641	149,855	167,496
SHARS	345,175	-	345,175
County of Hidalgo Tax Collections	341,778	26,204	367,982
	<u>\$ 6,348,755</u>	<u>\$ 5,210,788</u>	<u>\$ 11,559,543</u>
 <u>Due To Other Governments:</u>			
Due to Texas Education Agency	\$ 101,123	\$ -	\$ 101,123
Due to Region One - Gear Up	-	781	781
	<u>\$ 101,123</u>	<u>\$ 781</u>	<u>\$ 101,904</u>

NOTE 10 – UNEARNED REVENUE

Governmental funds report unearned revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

As of August 31, 2009 the various components of unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Property Taxes	\$6,795,942	\$ -
Advance Ticket Sales	-	18,330
Food Service Commodities	-	188,478
Summary of Finances	-	2,272,918
Receipts in Excess of Expenditures - Grants	-	362,790
	<u>\$6,795,942</u>	<u>\$2,842,516</u>

MCALLEN INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
August 31, 2009

NOTE 11 - GENERAL FUND FEDERAL SOURCE REVENUES

The following summarizes general fund federal program revenues:

	CFDA Number	Amount
National School Lunch/Breakfast	10.555	\$ 9,228,054
Commodity Supplemental Food Program	10.565	749,328
NSLP Equipment Assistance ARRA	10.579	10,895
Impact Aid	84.041	7,420
R.O.T.C. Program	12.000	278,816
Medicaid	Not Applicable	1,377,852
Indirect Cost Revenues:		
ESEA Title I, Part A and Improvement Programs	84.010A	185,015
ESEA Title I, Part C Education of Migratory Children	84.011A	21,477
IDEA-B Formula	84.027A	80,649
IDEA-B Preschool	84.173A	1,166
ESEA Title IV Safe & Drug-Free Schools & Communities	84.186A	2,745
Title III Part A Limited English Proficient Program	84.365A	16,145
Title II Part D Enhancing Education through Technology	84.318X	1,917
Title II Part D Vision 2020	84.318X	8,285
IDEA-B Discretionary Deaf	84.027A	2,370
IDEA-B Deaf	84.027A	1,540
IDEA-B Preschool Deaf	84.173A	254
IDEA-C Early Intervention	84.181A	43
ESEA Title II Part A Teacher & Principal Training & Recruiting	84.367A	40,963
Vocational Education - Carl D. Perkins	84.048A	5,657
Texas Reading First	84.357A	10,411
Gear Up	84.334A	2,697
Total For General Fund		\$ 12,033,699

NOTE 12 - LONG-TERM OBLIGATIONS

Governmental Activities.

Long-Term Debt.

Changes in debt long-term obligations for the year ended August 31, 2009 are as follows:

Governmental Activities	Beginning Balance 9/1/08	Increase	Decrease	Ending Balance 8/31/09	Due Within One Year
General Obligation					
Bonds Payable	\$ 122,949,664	\$ -	\$ 3,994,703	\$ 118,954,961	\$ 3,993,970
Gain on Refunding	75,600	-	3,600	72,000	-
Premium on Bonds	3,842,999	-	203,918	3,639,081	-
Accretion of Bonds	1,095,923	348,263	230,297	1,213,889	296,030
Sub-Total Bonds	127,964,186	348,263	4,432,518	123,879,931	4,290,000
Loans Payable	685,944	141,012	288,639	538,317	350,252
Capital Leases	470,881	1,310,171	425,549	1,355,504	1,126,668
Total Governmental Activities	\$ 129,459,429	\$ 1,799,446	\$ 5,146,706	\$ 125,773,752	\$ 5,766,920

MCALLEN INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
August 31, 2009

NOTE 12 - LONG-TERM OBLIGATIONS (Continued)

All long-term debt listed above, excluding bonds payable, and capital leases which are expected to be funded through grants, will be paid by the General Fund.

Loans Payable

Loans payable are comprised of the following at August 31, 2009:

Contractual obligation payable in annual installments, interest at 4.34% through 2011. Code Section 271	\$ 491,313
Contractual obligation payable in three annual installments, interest at 3.30% through 2009. Chapter 44 Section 44.0331	<u>47,004</u>
	<u>\$ 538,317</u>

Loan requirements to term are as follows:

Year Ending August 31,	Loans Payable		Total Requirements
	Principal	Interest	
2010	\$ 350,252	\$ 23,325	\$ 373,577
2011	188,066	8,326	196,392
	<u>\$ 538,317</u>	<u>\$ 31,651</u>	<u>\$ 569,969</u>

Bonds Payable

Bonds payable at August 31, 2009 are comprised of the following:

Unlimited Tax School Building and Refunding Bonds:

\$118,066,357 Series 2005 due in varying installments through 2030, interest at 3.00% to 5.00%.	\$ 113,054,962
\$5,900,000 Series 2008 due in varying installments through 2018, interest at 3.16% to 3.50%.	5,900,000
Accretion on 2005 Capital Appreciation Bonds	<u>1,213,889</u>
	<u>\$120,168,851</u>

Debt service requirements are as follows:

Year Ending August 31,	Bonds Payable		Total Requirements
	Principal	Interest	
2010	\$ 4,290,000	\$ 5,686,468	\$ 9,976,468
2011	4,615,000	5,690,064	10,305,064
2012	5,015,000	5,708,103	10,723,103
2013	5,265,000	5,687,431	10,952,431
2014	5,790,000	4,812,238	10,602,238
2015-2019	31,980,000	19,552,690	51,532,690
2020-2024	24,815,000	12,659,315	37,474,315
2025-2029	31,780,000	5,688,057	37,468,057
2030	7,320,000	173,850	7,493,850
	<u>120,870,000</u>	<u>\$ 65,658,216</u>	<u>\$ 186,528,216</u>
Less: Amounts Not Accreted	(701,149)		
	<u>\$ 120,168,851</u>		

MCALLEN INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
August 31, 2009

NOTE 12 - LONG-TERM OBLIGATIONS (Continued)

Capital Leases Payable – Governmental Funds

Capital leases payable at August 31, 2009 are as follows:

Capital lease payable for computers in two annual payments of \$211,627 including interest at 3.82% through 2010. Code Sec. 61.003	\$ 203,837
Capital lease payable for computers in three annual payments of \$85,116 including interest at 4.78% through 2011. Code Sec. 61.003	158,937
Capital lease payable for police radios in three annual payments of \$74,587 including interest at 4.49% through 2011. Code Sec. 61.003	139,592
Capital lease payable for weight equipment in one annual payment of \$708,443 including interest at 5.06% through 2010. Code Sec. 61.003	698,044
Capital lease payable for computers in two annual payments of \$80,796 including interest at 6.01% through 2010. Code Sec. 61.003	<u>155,094</u>
	<u>\$ 1,355,504</u>

Capital lease requirements to term are as follows:

Year Ending August 31,	Leases Payable		Total
	Principal	Interest	Requirements
2010	\$ 1,126,668	\$ 33,847	\$ 1,160,515
2011	228,836	11,607	240,443
	<u>\$ 1,355,504</u>	<u>\$ 45,454</u>	<u>\$ 1,400,958</u>

Line of Credit

The District maintained a line of credit at various times throughout the year. At August 31, 2009 the line of credit available at its depository bank was \$7,500,000. No balances are outstanding at August 31, 2009 and no draws were made on the line of credit during the year.

Advance Refunding

In 2005, the District advance refunded \$6,945,000, Series 1998 Bonds, and \$16,690,000, Series 1999 Bonds. The District issued \$6,945,000 and \$16,690,000 of Bonds to provide resources to cover costs of issuance to purchase qualifying securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of the refunded debt. Accordingly, the liability for the defeased bonds is not included in the District's financial statements.

At August 31, 2009, \$20,795,000 of outstanding bonds is considered defeased.

MCALLEN INDEPENDENT SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 August 31, 2009

NOTE 12 - LONG-TERM OBLIGATIONS (Continued)

Compensated Absences

It is the District's policy to allow employees to accumulate earned but unused state and local personal and sick leave days. Any employee who retires through the Teacher Retirement System of Texas shall be entitled to a one-time payment of local days, with a limit of 50 days. Payment to professional employees is limited to \$5,000 or 50 days at \$100 a day. Payment to paraprofessionals and auxiliary personnel is limited to a maximum of \$1,750 or 50 days at \$35 a day. The estimated liability at August 31, 2009 for accumulated sick leave was \$399,881 and the current portion is \$59,780. Increases (decreases) for the year were \$120,883 and \$59,420, respectively.

Reconcilement of long term obligations as reported on Exhibit A-1:

Debt long-term obligations	\$	125,773,752
Compensated absences		399,881
	Total	\$ 126,173,633
Exhibit A-1		
Noncurrent liabilities:		
Due within one year	\$	5,826,700
Due in more than one year		120,346,933
	Total Exhibit A-1	\$ 126,173,633

NOTE 13 - 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. TRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report may be obtained by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701, by calling the TRS Communications Department at 1-800-223-8778, or by downloading the report from the TRS Internet website, www.trs.state.tx.us, under the TRS Publications heading.

Funding Policy. State law provides for fiscal years 2009, 2008, and 2007, a state contribution rate of 6.58% for 2008-2009 and a member contribution rate of 6.4%. In certain instances the reporting district is required to make all or a portion of the state's 6.58% contribution. Contribution requirements are not actuarially determined but are legally established each biennium pursuant to the following state funding policy: (1) The state constitution requires the legislature to establish a member contribution rate of not less than 6.0% of the member's annual compensation and a state contribution rate of not less than 6.0% and not more than 10.0% of the aggregate annual compensation of all members of the system during that fiscal year; (2) A state statute prohibits benefit improvements or contribution reductions if, as a result of a 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. The District's employees' contributions to the System for the years ending August 31, 2009, 2008, and 2007, \$9,029,241, \$8,897,497, and \$8,515,457 respectively, equal to the required contributions for each year.

MCALLEN INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
August 31, 2009

NOTE 13 - PENSION PLAN OBLIGATIONS (Continued)

State matching for the years ended August 31, 2009, 2008, and 2007 were \$9,283,188, \$9,147,739, and \$7,983,241 respectively. Other contributions made from federal and private grants and from the District for salaries above the statutory minimum for the years ending August 31, 2009, 2008, and 2007 were \$2,242,541, \$2,166,119, and \$1,825,710 respectively, equal to the required contributions for each year.

Deferred Compensation Plan

The District offered its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan was available to all District employees and permitted them to defer a portion of their salary until future years. The deferred compensation plan is no longer available to employees. These accumulated funds are accounted for in a fiduciary fund and are for distribution only.

NOTE 14 - RISK MANAGEMENT

A. General

During the period September 1, 2008 through August 31, 2009, the District participated in a public entity risk pool (the Program) for all significant governmental functions claims. The more significant of these includes \$1,000,000 of general liability insurance and property insurance covering District buildings and properties in an aggregate amount of approximately \$405,877,166. Provisions of the Program require annual contributions based on a risk-funding plan developed by the Program. In addition, the terms of the Program allow the Program to collect an adjusted contribution if the Program's operations for any given fund year are inadequate to pay the ultimate cost of claims incurred in that fund year.

This adjusted contribution may be collected from a member who no longer participates in the Program if the year was attributable to a member's participation year. The Program shall provide excess coverage to ensure the Program's financial integrity.

There were no reductions in coverage in the past fiscal year and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

B. Health and Dental Benefit Plan

During the year ended August 31, 2009, employees of the McAllen Independent School District were covered by a health and dental care insurance plan (the Plan) which is accounted for in the Internal Service Fund. The District contributed premiums of an average of \$369 per month per employee to the Plan; and employees, at their option, authorized payroll withholdings to pay contributions or premiums for dependents. The Plan was authorized by Section 21.922, Texas Education Code, and was documented by contractual agreement.

The contract between the McAllen Independent School District and the third-party administrator is renewable each October 1, and terms of coverage and contribution costs are included in the contractual provisions. In accordance with state statute, the District was protected against unanticipated catastrophic individual or aggregate loss by stop-loss coverage carried through The Reliastar Life Insurance Company, a commercial insurer eligible to do business in Texas in accordance with the Texas Insurance Code.

MCALLEN INDEPENDENT SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 August 31, 2009

NOTE 14 - RISK MANAGEMENT (Continued)

For the plan year stop-loss coverage was in effect for individual claims exceeding \$100,000. Minimum aggregate retention was \$16,351,773 with a maximum aggregate benefit of \$1,000,000. Management believes that adequate funding plans have been made for all incurred and anticipated claims at August 31, 2009.

C. Worker's Compensation

The District has a self-insured worker's compensation program which is accounted for in the Internal Service Fund. The District is self-insured for individual claims up to \$250,000. Minimum aggregate retention is 130% of manual premiums subject to a minimum of \$2,461,362 with a maximum aggregate benefit of \$2,000,000. Management believes that adequate funding has been made for all incurred and anticipated claims at August 31, 2009.

D. Accrued Liabilities

The claims for worker's compensation insurance and health and dental insurance liability of \$7,176,571 reported in the Internal Service Fund at August 31, 2009 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 at the date of the financial statements and the amount of the loss can be reasonably estimated.

Changes in the Fund's claims liability amount in fiscal year 2009 were:

	Health and Dental	Worker's Compensation
Beginning of Fiscal Year Claims Liability	\$ 1,943,795	\$ 5,225,249
Current Year Claims and Changes in Estimates	22,800,340	826,987
Claim payments, net of stop loss	(22,539,004)	(1,080,796)
End of Fiscal Year Claims Liability	\$ 2,205,131	\$ 4,971,440

NOTE 15 – REVENUES

Revenues of the District consist of the following:

Local, intermediate, and out-of-state revenues are comprised primarily of property taxes received, food sales, co-curricular activity receipts, investment income and miscellaneous other receipts.

State program revenues are primarily comprised of foundation monies received from the Texas Education Agency and other miscellaneous state program reimbursements.

Federal program revenues include all federal grants direct from federal agencies or passed through from the Texas Education Agency or other state and local entities.

MCALLEN INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
August 31, 2009

NOTE 16 - OTHER FINANCING SOURCES

Other resources during the fiscal year were as follows:

	General Fund	Nonmajor Governmental Funds
Other Sources:		
Sale of Real or Personal Property	\$ 22,648	\$ -
Proceeds from Capital Leases	827,498	482,673
Non-Current Loan Proceeds	141,012	-
Other	4,986	-
Transfers In	56,102	-
	\$ 1,052,246	\$ 482,673

NOTE 17 - OPERATING LEASE COMMITMENTS

The District has operating leases for computer and office equipment. Rental expenditures during 2009 totaled \$781,361 for governmental activities and \$112,685 for business-type activities. Commitments under lease agreements as of August 31, 2009 provide for future minimum lease obligations as follows:

Year Ending August 31,	Governmental Activities	Business-Type Activities
2010	\$ 201,490	\$ 85,982
2011	33,488	32,610
2012	32,844	8,636
2013	32,844	-
	\$ 300,666	\$ 127,228

NOTE 18 - LOCAL AND INTERMEDIATE SOURCES

Local and intermediate revenues in Governmental Fund Types consist of the following:

	General Fund	Other Governmental Funds			Total
		Special Revenue Fund	Debt Service Fund	Capital Projects Fund	
Property Taxes	\$ 61,897,092	\$ -	\$ 6,221,093	\$ -	\$ 68,118,185
Food Sales	1,496,506	-	-	-	1,496,506
Investment Income	325,329	-	48,494	408,850	782,673
Penalties, Interest and Other	1,727,921	-	163,114	-	1,891,035
Insurance Recovery	50,284	-	-	-	50,284
Gifts and Bequests	59,959	252,437	-	-	312,396
Tuition and Fees	223,953	477,409	-	-	701,362
Co-Curricular Student Activities	26,700	1,603,960	-	-	1,630,660
Athletic Activities	316,868	-	-	-	316,868
Rent	33,358	-	-	-	33,358
SSA-Local Rev. from Districts Served	199,481	1,601,466	-	-	1,800,947
Other	250,271	-	22,213	5,348	277,832
	\$ 66,607,722	\$ 3,935,272	\$ 6,454,914	\$ 414,198	\$ 77,412,106

MCALLEN INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
August 31, 2009

NOTE 19 – OTHER RESERVES OF FUND BALANCE

Other reserves of fund balance at August 31, 2009 in the nonmajor governmental funds totaling \$3,861,102 includes: \$932,743 in the Capital Projects Fund for construction, \$196,632 for Technology Allotment, \$1,843,061 for the Regional School for the Deaf, \$113,322 for High School Allotment purposes, and \$775,344 for campus activities.

NOTE 20 – SHARED SERVICE ARRANGEMENT

The District is the fiscal agent for a Shared Service Arrangement (SSA) which provides deaf education services to member districts whose students are enrolled in the Regional Day School Program for the Deaf. In addition to the District, other member districts include Donna ISD, Edcouch-Elsa ISD, Edinburg CISD, Hidalgo ISD, La Feria ISD, La Joya ISD, La Villa ISD, Mercedes ISD, Mission CISD, Monte Alto ISD, Pharr-San Juan-Alamo ISD, Progreso ISD, Rio Grande City ISD, Roma ISD, Santa Maria ISD, Sharyland ISD, Valley View ISD and Weslaco ISD.

The District, acting as the fiscal agent, receives monies from the granting agencies and administers the program. The fiscal agent is responsible for employment of personnel, budgeting, accounting and reporting. According to guidance provided in Texas Education Agency’s Resource Guide, the District has accounted for the activities of the SSA in the appropriate Special Revenue Funds. Additionally the SSA is accounted for using the Accounting and Reporting Treatment Guidance section of the Resource Guide, Update 13.0.

According to the SSA agreement, costs incurred by the SSA shall be divided among the Member Districts in proportion to the number of students each member district attending the Regional School. Expenditures allocated to the SSA members as of August 31, 2009 are summarized below:

Donna	\$	186,031
Edcouch-Elsa		53,152
Edinburg		221,466
Hidalgo		26,576
La Feria		-
La Joya		407,497
La Villa		17,717
McAllen		487,225
Mercedes		97,445
Mission		212,607
Monte Alto		-
Progreso		8,859
PSJA		363,204
RGC		124,021
Roma		106,304
Santa Maria		8,859
Sharyland		8,859
Valley View		44,293
Weslaco		283,476
Total	\$	<u>2,657,590</u>

MCALLEN INDEPENDENT SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 August 31, 2009

NOTE 21 – CONSTRUCTION COMMITMENTS

At August 31, 2009 the District had remaining construction commitments:

Project	Authorization	Expended	Remaining	Sources
Activity Buildings	\$ 3,553,646	\$3,491,870	\$ 61,776	General Fund
Maintenance & Operations	3,911,300	3,866,697	\$ 44,603	Bond Proceeds
Central Kitchen	8,880,171	8,866,707	\$ 13,464	Bond Proceeds
Transportation Building	2,242,173	2,239,654	\$ 2,519	Bond Proceeds

NOTE 22 - CONTINGENT LIABILITIES

- A. The District participates in a number of state and federally assisted programs. These programs are subject to program compliance audits by the grantors or their representatives. Accordingly, the District's compliance with applicable grant requirements will be finally determined at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the District expects such amounts, if any, to be immaterial.
- B. The District is independently self-insured for health and dental and worker's compensation insurance. Claims paid are reported in the Internal Service Fund. Claims incurred but not reported have been considered in determining the accrual for claims and the District management believes adequate accruals have been provided at August 31, 2009.
- C. The District is involved in various legal proceedings arising from its operations. Management in consultation with its attorneys believes the outcome will have no material effect on the District's financial position.
- D. The District participated in a public entity risk pool for all significant governmental functions. The District believes any adjustments to premiums for claims would be immaterial.

NOTE 23 – RETIREE HEALTH CARE PLAN

Plan Description. The District contributes to the Texas Public School Retired Employees Group Insurance Program (TRS-Care), a cost-sharing multiple-employer defined benefit post employment health care plan administered by the Teacher Retirement System of Texas (TRS). TRS-Care Retired Plan provides health care coverage for certain persons (and their dependents) who retired under the Teacher Retirement System of Texas. The statutory authority for the program is Texas Insurance Code, Chapter 1575. Section 1575.052 grants the TRS Board of Trustees the authority to establish and amend basic and optional group insurance coverage for participants. The TRS issues a publicly available financial report that includes financial statements and required supplementary information for TRS-Care. That report may be obtained by visiting the TRS web site at www.trs.state.tx.us, by writing to the Communications Department of the Teacher Retirement System of Texas at 1000 Red River Street, Austin, Texas 78701, or by calling 1-800-223-8778.

Funding Policy. Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively.

MCALLEN INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
August 31, 2009

NOTE 23 – RETIREE HEALTH CARE PLAN *(Continued)*

The State of Texas and active public school employee contribution rates were 1.0% and 0.65% of public school payroll, respectively, with school districts contributing a percentage of payroll set at 0.55% for fiscal years 2009, 2008 and 2007. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. For the years ended August 31, 2009, 2008, and 2007, the State's contributions to TRS-Care were \$1,410,819, \$1,390,234, and \$1,330,509, respectively, the active member contributions were \$917,032, \$903,633, and \$864,831 respectively, and the District's contributions were \$775,950, \$764,628, and \$731,797 respectively, which equaled the required contributions each year.

MCALLEN INDEPENDENT SCHOOL DISTRICT
Annual Financial Report for
The Year Ended August 31, 2009

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REQUIRED SUPPLEMENTARY INFORMATION

MCALLEN INDEPENDENT SCHOOL DISTRICT
Annual Financial Report for
The Year Ended August 31, 2009

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MCALLEN INDEPENDENT SCHOOL DISTRICT

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED AUGUST 31, 2009

EXHIBIT G-1

Page 1 of 2

Data Control Codes		1		2		3		Variance with Final Budget Positive (Negative)
		Budgeted Amounts				Actual		
		Original		Final				
REVENUES:								
5700	Local and Intermediate Sources	\$ 67,732,862	\$ 66,129,138	\$ 66,607,722	\$ 478,584			
5800	State Program Revenues	107,026,882	104,363,697	105,108,355	744,658			
5900	Federal Program Revenues	11,119,299	11,503,141	12,033,699	530,558			
5020	Total Revenues	<u>185,879,043</u>	<u>181,995,976</u>	<u>183,749,776</u>	<u>1,753,800</u>			
EXPENDITURES:								
Current:								
Instruction & Instructional Related Services:								
0011	Instruction	104,526,929	105,149,208	104,527,663	621,545			
0012	Instructional Resources and Media Services	4,177,873	4,091,078	4,058,795	32,283			
0013	Curriculum and Staff Development	2,112,339	2,078,490	1,797,172	281,318			
	Total Instruction & Instr. Related Services	<u>110,817,141</u>	<u>111,318,776</u>	<u>110,383,630</u>	<u>935,146</u>			
Instructional and School Leadership:								
0021	Instructional Leadership	2,415,607	2,635,261	2,477,545	157,716			
0023	School Leadership	10,898,769	10,790,930	10,770,639	20,291			
	Total Instructional & School Leadership	<u>13,314,376</u>	<u>13,426,191</u>	<u>13,248,184</u>	<u>178,007</u>			
Support Services - Student (Pupil):								
0031	Guidance, Counseling and Evaluation Services	8,568,585	8,287,863	8,258,216	29,647			
0032	Social Work Services	961,475	930,287	917,853	12,434			
0033	Health Services	1,960,168	2,263,111	2,241,476	21,635			
0034	Student (Pupil) Transportation	3,172,049	3,156,178	2,892,420	263,758			
0035	Food Services	11,613,977	11,756,564	11,629,778	126,786			
0036	Cocurricular/Extracurricular Activities	5,300,250	6,238,673	6,152,735	85,938			
	Total Support Services - Student (Pupil)	<u>31,576,504</u>	<u>32,632,676</u>	<u>32,092,478</u>	<u>540,198</u>			
Administrative Support Services:								
0041	General Administration	5,000,031	5,241,222	4,994,665	246,557			
	Total Administrative Support Services	<u>5,000,031</u>	<u>5,241,222</u>	<u>4,994,665</u>	<u>246,557</u>			
Support Services - Nonstudent Based:								
0051	Plant Maintenance and Operations	19,316,291	20,321,554	19,885,623	435,931			
0052	Security and Monitoring Services	2,607,840	2,846,624	2,810,622	36,002			
0053	Data Processing Services	1,852,659	2,003,629	2,025,537	(21,908)			
	Total Support Services - Nonstudent Based	<u>23,776,790</u>	<u>25,171,807</u>	<u>24,721,782</u>	<u>450,025</u>			
Ancillary Services:								
0061	Community Services	114,883	70,213	60,447	9,766			
	Total Ancillary Services	<u>114,883</u>	<u>70,213</u>	<u>60,447</u>	<u>9,766</u>			
Debt Service:								
0071	Principal on Long-Term Debt	404,992	496,202	496,185	17			
0072	Interest on Long-Term Debt	39,326	46,194	46,179	15			
	Total Debt Service	<u>444,318</u>	<u>542,396</u>	<u>542,364</u>	<u>32</u>			
Capital Outlay:								
0081	Capital Outlay	5,000,000	4,226,601	3,795,524	431,077			
	Total Capital Outlay	<u>5,000,000</u>	<u>4,226,601</u>	<u>3,795,524</u>	<u>431,077</u>			
Intergovernmental Charges:								
0095	Payments to Juvenile Justice Alternative							

MCALLEN INDEPENDENT SCHOOL DISTRICT

EXHIBIT G-1

GENERAL FUND

Page 2 of 2

BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED AUGUST 31, 2009

Data Control Codes		1	2	3	Variance with Final Budget Positive (Negative)
		Budgeted Amounts			
		Original	Final	Actual	
0095	Education Programs	45,000	23,531	9,954	13,577
0099	Other Intergovernmental Charges	790,000	599,191	589,168	10,023
	Total Intergovernmental Charges	835,000	622,722	599,122	23,600
6030	Total Expenditures	190,879,043	193,252,604	190,438,196	2,814,408
1100	Excess (Deficiency) of Revenues Over (Under)				
1100	Expenditures	(5,000,000)	(11,256,628)	(6,688,420)	4,568,208
	Other Financing Sources (Uses):				
7912	Sale of Real or Personal Property	--	15,329	22,648	7,319
7913	Proceeds from Capital Leases	4,000,000	709,256	827,498	118,242
7914	Non-Current Loan Proceeds	--	141,012	141,012	--
7915	Transfers In	--	90,228	56,102	(34,126)
7949	Other Resources	--	--	4,986	4,986
7080	Total Other Financing Sources and (Uses)	4,000,000	955,825	1,052,246	96,421
1200	Net Change in Fund Balance	(1,000,000)	(10,300,803)	(5,636,174)	4,664,629
0100	Fund Balance - Beginning	18,505,525	18,505,525	18,505,525	--
3000	Fund Balance - Ending	\$ 17,505,525	\$ 8,204,722	\$ 12,869,351	\$ 4,664,629

MCALLEN INDEPENDENT SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended August 31, 2009

A. *Budgets*

The official school budget was prepared for adoption for required Governmental Fund Types by August 27, 2008. The budget was formally adopted by the Board of School Trustees at a duly advertised public meeting prior to the expenditure of funds. Expenditures may not legally exceed budgeted appropriations at the function level. Annual budgets were adopted for the General Fund and the Debt Service Fund on a basis consistent with generally accepted accounting principles. The Debt Service Fund budget comparison schedule is presented in the Other Schedules section of the financial statements.

B. *Encumbrances*

Encumbrances for goods or purchased services are documented by purchase orders or contracts. Under Texas law, appropriations lapse at August 31, and encumbrances outstanding at the time are to be either cancelled or appropriately provided for in the subsequent year's budget.

End-of-year outstanding encumbrances provided for in the subsequent year's General Fund budget was \$411,441.

MCALLEN INDEPENDENT SCHOOL DISTRICT
Annual Financial Report for
The Year Ended August 31, 2009

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OTHER SCHEDULES

MCALLEN INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF DELINQUENT TAXES RECEIVABLE
 FOR THE YEAR ENDED AUGUST 31, 2009

Year Ended August 31	Tax Rates		3 Assessed/Appraised Value For School Tax Purposes
	1 Maintenance	2 Debt Service	
2000 and Prior Years	\$ 1.4163	.1137	--
2001	1.5000	.0800	3,663,294,996
2002	1.5000	.0425	3,923,601,104
2003	1.5000	.0425	4,145,663,438
2004	1.5000	.0400	4,411,021,970
2005	1.5000	.0400	4,845,250,550
2006	1.5000	.1155	4,696,015,217
2007	1.3700	.1080	4,900,959,095
2008	1.0400	.1050	5,715,239,430
2009 (School Year Under Audit)	1.0400	.1050	5,831,870,139
1000 Totals			

10 Beginning Balance 9/1/08	20 Current Year's Total Levy	31 Maintenance Collections	32 Debt Service Collections	40 Entire Year's Adjustments	50 Ending Balance 8/31/09
836,762		58,113	11,620	(14,487)	\$ 752,541
200,517		22,847	1,219	(27,807)	148,644
338,682		23,789	674	(29,424)	284,796
231,455		34,705	983	(26,757)	169,009
344,774		76,133	2,030	(34,924)	231,687
692,721		137,249	3,660	(141,348)	410,464
953,120		239,434	18,436	(35,201)	660,048
1,549,930		519,613	40,962	(105,977)	883,377
3,530,701		1,636,230	165,196	(213,407)	1,515,868
--	65,496,467	59,035,735	5,960,342	3,587,801	4,088,190
<u>\$ 8,678,660</u>	<u>\$ 65,496,467</u>	<u>\$ 61,783,847</u>	<u>\$ 6,205,123</u>	<u>\$ 2,958,469</u>	<u>\$ 9,144,626</u>

MCALLEN INDEPENDENT SCHOOL DISTRICT

EXHIBIT J-2

*SCHEDULE OF EXPENDITURES FOR COMPUTATION OF INDIRECT COST FOR 2010-2011
GENERAL AND SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED AUGUST 31, 2009*

FUNCTION 41 - GENERAL ADMINISTRATION AND FUNCTION 99 - APPRAISAL DISTRICT COST

Account Number	Account Name	1 (702) School Board	2 (703) Tax Collection	3 (701) Supt's Office	4 (750) Indirect Cost	5 (720) Direct Cost	6 (Other) Misc.	7 Total
611X-6146	Payroll Costs	\$ 48,263	\$ --	\$ 234,018	\$ 3,658,406	\$ 263,228	\$ --	\$ 4,203,915
6149	Fringe Benefits (Unused Leave for Separating Employees in Function 41 and Related 53)	--	--	--	10,020	--	--	10,020
6149	Fringe Benefits (Unused Leave for Separating Employees in all Functions except Function 41 and Related 53)	--	--	--	49,400	--	--	49,400
6211	Legal Services	--	--	288,151	--	--	--	288,151
6212	Audit Services	--	--	--	52,633	--	--	52,633
6213	Tax Appraisal and Collection	--	723,648	--	--	--	--	723,648
621X	Other Prof. Services	23,485	--	11,601	46,471	96	--	81,653
6220	Tuition and Transfer Payments	--	--	--	--	--	--	--
6230	Education Service Centers	1,050	--	--	390	--	--	1,440
6240	Contr. Maint. and Repair	--	--	--	--	28,171	--	28,171
6250	Utilities	--	--	--	--	18	--	18
6260	Rentals	--	--	--	18,306	1,385	--	19,691
6290	Miscellaneous Contr.	856	--	1,007	37,323	931	--	40,117
6310	Operational Supplies, Materials	--	--	--	1,011	1,077	--	2,088
6320	Textbooks and Reading	--	--	2,392	417	204	--	3,013
6330	Testing Materials	--	--	--	--	--	--	--
63XX	Other Supplies, Materials	4,177	--	10,439	68,321	5,349	--	88,286
6410	Travel, Subsistence, Stipends	22,557	--	2,274	8,617	1,002	--	34,450
6420	Ins. and Bonding Costs	--	--	--	184,802	1,003	--	185,805
6430	Election Costs	20,106	--	--	--	--	--	20,106
6490	Miscellaneous Operating	30,477	--	9,708	105,379	255	--	145,819
6500	Debt Service	--	--	--	--	--	--	--
6600	Capital Outlay	--	--	--	--	--	13,000	13,000

Total \$ 150,971 \$ 723,648 \$ 559,590 \$ 4,241,496 \$ 302,719 \$ 13,000 \$ 5,991,424

Total Expenditures for General and Special Revenue Funds (9) \$ 224,912,037

LESS: Deductions of Unallowable Costs

FISCAL YEAR

Total Capital Outlay (6600)	(10)	\$ 4,517,392
Total Debt & Lease (6500)	(11)	\$ 765,382
Plant Maintenance (Function 51, 6100-6400)	(12)	\$ 19,871,760
Food (Function 35, 6341 and 6499)	(13)	\$ 4,718,511
Stipends (6413)	(14)	\$ --
Column 4 (above) - Total Indirect Cost		\$ 4,241,496

Subtotal 34,114,541

Net Allowed Direct Cost \$ 190,797,496

CUMULATIVE

Total Cost of Buildings Before Depreciation (1520)	(15)	\$ 237,299,718
Historical Cost of Buildings over 50 years old	(16)	19,584,885
Amount of Federal Money in Building Cost (Net of #16)	(17)	228,018
Total Cost of Furniture & Equipment Before Depreciation (1530 & 1540)	(18)	16,169,035
Historical Cost of Furniture & Equipment over 16 years old	(19)	4,809,932
Amount of Federal Money in Furniture & Equipment (Net of #19)	(20)	766,678

(8) Note A - \$358,190 Function 53 expenditures and \$589,168 in Function 99 expenditures are included in this report on administrative costs.

MCALLEN INDEPENDENT SCHOOL DISTRICT

EXHIBIT J-3

FUND BALANCE AND CASH FLOW CALCULATION WORKSHEET (UNAUDITED)

GENERAL FUND

AS OF AUGUST 31, 2009

Data Control Codes	Explanation	Amount
1	Total General Fund Fund Balance as of August 31, 2009 (Exhibit C-1 object 3000 for the General Fund only)	\$ 12,869,351
2	Total General Fund Reserved Fund Balance (from Exhibit C-1 - total of object 3400s for the General Fund only)	2,686,333
3	Total General Fund Designated Fund Balance (from Exhibit C-1 - total of object 3500s for the General Fund only)	1,000,000
4	Estimated amount needed to cover fall cash flow deficits in the General Fund (net of borrowed funds and funds representing deferred revenues)	--
5	Estimate of one month's average cash disbursements during the regular school session (9/1/09 - 5/31/10)	14,606,338
6	Estimate of delayed payments from state sources (58XX) including August payment delays	--
7	Estimate of underpayment from state sources equal to variance between Legislative Payment Estimate (LPE) and District Planning Estimate (DPE) or District's calculated earned state aid amount	--
8	Estimate of delayed payments from federal sources (59XX)	--
9	Estimate of expenditures to be reimbursed to General Fund from Capital Projects Fund (uses of General Fund cash after bond referendum and prior to issuance of bonds)	--
10	General Fund Optimum Fund Balance and Cash Flow (Lines 2+3+4+5+6+7+8+9)	18,292,671
11	Excess (Deficit) Undesignated Unreserved General Fund Fund Balance (Line 1 minus Line 10)	\$ (5,423,320)

MCALLEN INDEPENDENT SCHOOL DISTRICT

EXHIBIT J-4

DEBT SERVICE FUND
 BUDGETARY COMPARISON SCHEDULE
 FOR THE YEAR ENDED AUGUST 31, 2009

Data Control Codes	1		2		3		Variance with Final Budget Positive (Negative)
	Budgeted Amounts				Actual		
	Original		Final				
REVENUES:							
5700	Local and Intermediate Sources	\$ 6,511,040	\$ 6,344,091	\$ 6,454,913	\$ 110,822		
5800	State Program Revenues	2,548,985	2,605,378	2,617,054	11,676		
5020	Total Revenues	<u>9,060,025</u>	<u>8,949,469</u>	<u>9,071,967</u>	<u>122,498</u>		
EXPENDITURES:							
Debt Service:							
0071	Principal on Long-Term Debt	4,225,000	4,225,000	4,225,000	--		
0072	Interest on Long-Term Debt	5,527,950	5,527,950	5,527,950	--		
0073	Bond Issuance Costs and Fees	15,000	15,000	8,590	6,410		
	Total Debt Service	<u>9,767,950</u>	<u>9,767,950</u>	<u>9,761,540</u>	<u>6,410</u>		
6030	Total Expenditures	<u>9,767,950</u>	<u>9,767,950</u>	<u>9,761,540</u>	<u>6,410</u>		
1100	Excess (Deficiency) of Revenues Over (Under)						
1100	Expenditures	<u>(707,925)</u>	<u>(818,481)</u>	<u>(689,573)</u>	<u>128,908</u>		
1200	Net Change in Fund Balance	<u>(707,925)</u>	<u>(818,481)</u>	<u>(689,573)</u>	<u>128,908</u>		
0100	Fund Balance - Beginning	2,048,888	2,048,888	2,048,888	--		
3000	Fund Balance - Ending	<u>\$ 1,340,963</u>	<u>\$ 1,230,407</u>	<u>\$ 1,359,315</u>	<u>\$ 128,908</u>		

**OVERALL COMPLIANCE, INTERNAL CONTROLS,
AND FEDERAL AWARDS SECTION**

MCALLEN INDEPENDENT SCHOOL DISTRICT
Annual Financial Report for
The Year Ended August 31, 2009

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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
McAllen Independent School District
McAllen, Texas 78501

Members of the Board:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of McAllen Independent School District as of and for the year ended August 31, 2009, and have issued our report thereon dated January 15, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiency described as Item 2009-1 in the accompanying schedule of findings and questioned costs to be a significant deficiency in internal control over financial reporting.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

Compliance and Other Matters

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

The District's response to the finding identified in our audit is described in the accompanying Corrective Action Plan. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended for the information and use of the audit committee, the Board of Trustees, management, the Texas Education Agency and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


LONG CHILTON, LLP
Certified Public Accountants

McAllen, Texas
January 15, 2010

REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Trustees
McAllen Independent School District
McAllen, Texas 78501

Members of the Board:

Compliance

We have audited the compliance of the McAllen Independent School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that are applicable to each of its major federal programs for the year ended August 31, 2009. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, McAllen Independent School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended August 31, 2009.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 control deficiency in the District's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the District's internal control.

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

This report is intended solely for the information and use of the audit committee, the Board of Trustees, management, the Texas Education Agency and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


LONG CHILTON, LLP
Certified Public Accountants

McAllen, Texas
January 15, 2010

MCALLEN INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 For the Year Ended August 31, 2009

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness (es) identified? _____yes X no
- Significant deficiency (ies) identified that are not considered to be material weaknesses? ___X___yes _____ none reported

Noncompliance material to financial statements noted? _____yes X no

Federal Awards

Internal control over major programs:

- Material weakness (es) identified? _____yes X no
- Significant deficiency (ies) identified that are not considered to be material weaknesses? _____yes X no

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? _____yes X no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.010A	ESEA Title I, Part A-Improving Basic Programs Cluster
84.011A	ESEA Title I, Part C-Education of Migratory Children
84.027A/84.173A/84.391	IDEA – B Cluster
84.287C	21 st Century Community Learning Centers
84.184L	McAllen SAFE (Students Are First in Education)
10.579	NSLP Equipment Assistance Grant ARRA

Dollar threshold used to distinguish between type A and type B programs: \$ 957,216

Auditee qualified as low-risk auditee? ___X___yes _____ no

MCALLEN INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
 For the Year Ended August 31, 2009

Section II - Financial Statement Findings

	<u>DESCRIPTION</u>
Reference No.: 2009-1	Allotment of State Foundation School Program funds. School Transportation Route Services Report/Student Transportation Operations Report/Underlying Report Documentation and Retention
Criteria:	<p><i>School Transportation Route Services Report</i>—Supporting documentation for the report data (route descriptions, eligible rider rosters, and official head count sheets) should be kept on file in the district for audit purposes. Official counts of eligible riders should include the date and time the count was taken, whether the student was present or not at the time of the count and the signature of the driver or assigned school official that performed the count.</p> <p><i>Student Transportation Operations Report</i> – This report should include direct and indirect expenditures actually incurred for providing student transportation during the school year.</p> <p><i>Record Retention</i> – State law requires that the District maintain records for prescribed periods. These transportation reports also require specific information to be maintained for audit.</p>
Condition Found:	<p><i>School Transportation Route Services Report</i> – Contemporaneous records provided for official counts for regular routes included various form templates. An official of the District did not sign the official count forms provided and some dates were not official count dates. These forms did not provide turn by turn mileage and ridership attendance. Our sampling did not encompass looking at source documents for special education regular routes. Original driver source documents for Career and Technology Education (CATE) mileage recaps and ridership were not available for review. We were informed that the summary reports provided to us were prepared by the supervisor from the driver's information. The District was unable to find the driver's information. These summaries recapped campus departing and destination mileage rather than turn by turn miles. The time of day at departure and destination campuses, ridership counts and totals were included for each CATE route. The forms were not signed by the drivers and did not include ridership detail but did include counts.</p>

MCALLEN INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
 For the Year Ended August 31, 2009

<p>Condition Found: (Continued)</p>	<p>Student Transportation Operations Report - We noted that the per mile rate for the 2008-2009 CATE reimbursement increased significantly from 2007-2008. We asked the business office to review the report and underlying records to determine if the calculated rate was correct. The business office determined that the rate was overstated. To the extent of this overstatement the District set up a payable to the Texas Education Agency for the CATE miles.</p> <p>Record Retention – Complete contemporaneously prepared source documents prepared at the time of the official counts were not available for review.</p>
<p>Effect:</p>	<p>The District may not be in compliance with reporting requirements for transportation services and may possibly have to return some of its foundation allotment for transportation.</p>
<p>Questioned Cost:</p>	<p>School Transportation Route Services Report – Regular, Special and CATE Routes – Not determinable. It appears that the District may be able to provide records that substantiate miles driven even though they would not be prepared contemporaneously.</p> <p>Student Transportation Operations Reports – \$228,680. The District set up a payable to the Texas Education Agency in the amount of \$228,680 using the corrected mileage rate.</p> <p>Record Retention – Not determinable.</p>
<p>Recommendation:</p>	<p>We recommend that the District fully document its routes for regular, special and CATE with turn by turn mileage. We recommend that official counts signed by the driver be maintained along with ridership. We recommend that the District have the business office review all cost information submitted to the Texas Education Agency. We also recommend that the District retain all underlying records to substantiate these official counts for the time period as prescribed by law.</p>

MCALLEN INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS *(CONTINUED)*
For the Year Ended August 31, 2009

Section III - Federal Award Findings and Questioned Costs

None.

MCALLEN INDEPENDENT SCHOOL DISTRICT
 CORRECTIVE ACTION PLAN
 For the Year Ended August 31, 2009

Financial Statement Findings.

Reference No.: 2009-1	Allotment of State Foundation School Program funds. School Transportation Route Services Report/Student Transportation Operations Report/Underlying Report Documentation and Retention
Corrective Action Plan:	<p>All route supporting documentation and information is being recorded as per TEA instructions. Records will be maintained for the specific period of time to meet TEA standards. All records that are generated will be signed by the driver completing the report to verify that it is an official document. The cost portion of the Operation report will be submitted to the business office for review prior to submittal to State Office.</p> <p>If the oversight agency has questions regarding this plan, please contact Rene Paredez at (956) 632-3211.</p>

Federal Award Findings.

None.

MCALLEN INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF STATUS OF PRIOR YEAR FINDINGS
 For the Year Ended August 31, 2009

Financial Statement Findings:

	<u>STATUS OF PRIOR YEAR'S FINDING/COMPLIANCE</u>
Reference No.: 2008-1	Accruals for Financial Statements
	The District's Payroll Department revised its accrual procedures to include a one-time lump sum supplemental payment for services rendered prior to year end.

Federal Award Findings:

<u>PROGRAM</u>	<u>STATUS OF PRIOR YEAR'S FINDING/COMPLIANCE</u>
U.S. Department of Education - Passed Through State Department of Education: Title I Part A – Improving Basic Programs Grant No.: 08-610101-108906 09-610101- 18906 CFDA # 84.010A	
Reference No.: 2008-2	Level of Effort
	The State and Federal Programs Office are now reviewing all accounts and expenditures on a bi-weekly basis to ensure all charges are supplemental.

MCALLEN INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2009

EXHIBIT K-1
Page 1 of 3

(1)	(2)	(2A)	(3)	
Data Control Codes	Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
	U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES Passed Through State Department of Education:			
313	Medicaid Administrative Claim - MAC*	93.778	108-906	\$ 48,728
	Total U. S. Department of Health and Human Services			48,728
	U. S. DEPARTMENT OF EDUCATION Direct Program:			
311	Impact Aid-P.L. 81.874	84.041	108-906	7,420
441	Project ARTScope	84.351C	U351C080004A	116,674
489	McAllen SAFE (Students Are First in Education)	84.184L	Q184L08005-09	93,810
489	McAllen SAFE (Students Are First in Education)	84.184L	Q184L080005	766,045
	Total CFDA Number 84.184L			859,855
	Total Direct Program			983,949
	Passed Through The Univ. of TX-Pan American			
401	Gear Up	84.334A	P334A050122	129,931
401	Gear Up	84.334A	P334A050122	133,548
	Total CFDA Number 84.334A			263,479
	Total Passed Through The Univ. of TX-Pan American			263,479
	Passed Through State Department of Education:			
211	ESEA Title I Part A - Improving Basic Programs	84.010A	09-610101-108906	8,132,927
211	ESEA Title I Part A - Improving Basic Programs	84.010A	10-610101-108906	466,548
211	ESEA Title I School Improvement Program	84.010A	09-610104-108906002	5,380
211	ESEA Title I School Improvement Program	84.010A	09-610104-108906006	153,109
211	ESEA Title I School Improvement Program	84.010A	108-906	13,411
211	ESEA Title I School Improvement Program	84.010A	09-610104-108906007	95,567
211	ESEA Title I School Improvement Program	84.010A	09-610104-108906007	531
	Total CFDA Number 84.010A			8,867,473
212	ESEA Title I Part C - Education of Migratory Children	84.011A	1061-5001-108906	82,666
212	ESEA Title I Part C - Education of Migratory Children	84.011A	0961-5001-108906	873,909
	Total CFDA Number 84.011A			956,575
224	IDEA-B Formula *	84.027A	10-660001-108906-6600	191,910
224	IDEA-B Formula *	84.027A	09-660001-108906-6600	3,988,765
226	SSA IDEA-B Discretionary *	84.027A	0966-0002-108906-6673	109,224
227	SSA IDEA-B Formula Deaf *	84.027A	0966-0001-108906-6601	1,206
227	SSA IDEA-B Formula Deaf *	84.027A	0966-0001-108906-6601	70,747
	Total CFDA Number 84.027A			4,361,853
244	Vocational Education - Title I Part C	84.048A	1042-0006-108906	(513)
244	Vocational Education - Title I Part C	84.048A	0942-0006-108906	447,715
	Total CFDA Number 84.048A			447,202
225	IDEA-B Preschool *	84.173A	10-661001-108906-6610	4,284
225	IDEA-B Preschool *	84.173A	09-661001-108906-6610	69,460
228	SSA IDEA-B Preschool Deaf *	84.173A	0966-1001-108906-6611	11,680
	Total CFDA Number 84.173A			85,424
253	SSA IDEA-C Early Intervention (Deaf)	84.181A	0939-1101-108906-3911	1,967

MCALLEN INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2009

EXHIBIT K-1
Page 2 of 3

(1)	(2)	(2A)	(3)	
Data Control Codes	Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
204	ESEA, Title IV Part A-Safe & Drug-Free Schools & Comm Act	84.186A	10-691001-108906	692
204	ESEA, Title IV Part A- Safe & Drug-Free Schools & Comm Act	84.186A	09-691001-108906	102,994
	Total CFDA Number 84.186A			<u>103,686</u>
265	21st Century Community Learning Centers	84.287C	0969-50127-110021	43,239
265	21st Century Community Learning Centers	84.287C	0869-50127-110023	1,009,452
	Total CFDA Number 84.287C			<u>1,052,691</u>
269	Title V, Part A - Innovative Programs	84.298A	0968-5001-108906	9,295
262	Title II Part D Enhancing Education Through Technology	84.318X	0963-0001-108906	87,940
262	Title II Part D Vision 2020	84.318X	0963-0002-7110017	383,414
	Total CFDA Number 84.318X			<u>471,354</u>
261	TX Reading First Initiative for Grades Cycle 1, YR.5	84.357A	0765-5505-7110060	7,983
261	TX Reading First Initiative for Grades Cycle 1, YR.6	84.357A	0864-5505-7110051	566,592
	Total CFDA Number 84.357A			<u>574,576</u>
263	Title III Part A - LEP	84.365A	1067-1001-108906	43,773
263	Title III Part A - LEP	84.365A	0967-1001-108906	705,705
	Total CFDA Number 84.365A			<u>749,478</u>
255	ESEA Title II Part A - Teacher & Principal Training & Recruiting	84.367A	10-694501-108906	92,037
255	ESEA Title II Part A - Teacher & Principal Training & Recruiting	84.367A	09-694501-108906	1,810,514
	Total CFDA Number 84.367A			<u>1,902,551</u>
267	Summer School Program for LEP Students in K-1	84.369A	108-906	37,331
539	Title I SIP Academy Grant	84.377A	0961-0701-108906-006	148,637
539	Title I SIP Academy Grant	84.777A	108-906	201
539	Title I SIP Academy Grant	84.377A	0961-0701-108906-007	185,468
539	Title I SIP Academy Grant	84.377A	108-906	967
	Total CFDA Number 84.377A			<u>335,273</u>
283	IDEA -B Formula -ARRA-LEA*	84.391A	10-554001-108906	271,618
	Total Passed Through State Department of Education			<u>20,228,346</u>
	Passed Through Region One ESC			
401	Gear Up	84.334A	P334A050083-07	127,482
	Total Passed Through Region One ESC			<u>127,482</u>
	Total U.S. Department of Education			<u>21,603,256</u>
	U.S. DEPARTMENT OF DEFENSE			
314	R.O.T.C. Program	12.000	108-906	193,202
	Total U.S. Department of Defense			<u>193,202</u>

MCALLEN INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2009

EXHIBIT K-1
Page 3 of 3

	(1)	(2)	(2A)	(3)
Data Control Codes	Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
	U.S. DEPARTMENT OF AGRICULTURE			
	Passed Through Texas Department of Agriculture			
495	<i>Commodities</i>	10.565	108-906	749,328
240	<i>National School Breakfast*</i>	10.553	108-906	2,578,082
240	<i>National School Lunch*</i>	10.555	108-906	6,649,972
	<i>Total Passed Through Texas Department of Agriculture</i>			<u>9,977,382</u>
240	<i>NSLP Equipment Assistance ARRA</i>	10.579	108-906	10,895
	Total U.S. Department of Agriculture			<u>9,988,277</u>
	FEDERAL EMERGENCY MANAGEMENT AGENCY (FEMA)			
199	<i>FEMA Hurricane Reimbursement (Dolly)</i>	97.036	108-906	73,722
	Total Federal Emergency Management Agency			<u>73,722</u>
	TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 31,907,185</u>
	Total Federal Awards Expended			\$ 31,907,185
	Medicaid			<u>1,377,852</u>
	Exhibit C-2			<u>\$ 33,285,037</u>

* Indicates clustered program under OMB Circular A-133 Compliance Supplement

The accompanying notes are an integral part of this schedule.

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

Basis of Presentation:

The accompanying schedule of expenditures of federal awards includes the federal grant activity of McAllen Independent School District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

MCALLEN INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF REQUIRED RESPONSES TO SELECTED SCHOOL FIRST INDICATORS
AS OF AUGUST 31, 2009

<u>Data Control Codes</u>		<u>Responses</u>
SF2	Were there any disclosures in the Annual Financial Report and/or other sources of information concerning default on bonded indebtedness obligations?	No
SF4	Did the district receive a clean audit? - Was there an unqualified opinion in the Annual Financial Report?	Yes
SF5	Did the Annual Financial Report disclose any instances of material weaknesses in internal controls?	No
SF9	Was there any disclosure in the Annual Financial Report of material noncompliance?	No
SF10	What was the total accumulated accretion on capital appreciation bonds included in the government-wide financial statements at fiscal year-end?	\$ 1,213,889

MCALLEN INDEPENDENT SCHOOL DISTRICT
Annual Financial Report for
The Year Ended August 31, 2009

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