

**FRIENDSWOOD INDEPENDENT
SCHOOL DISTRICT**

**ANNUAL FINANCIAL AND
COMPLIANCE REPORT**

For The Year Ended August 31, 2017

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
TABLE OF CONTENTS

	<u>Page</u>	<u>Exhibit</u>
Certificate of Board	i	
Financial Section		
Independent Auditor’s Report	1	
Management Discussion and Analysis	7	
Basic Financial Statements:		
Government-wide Financial Statements		
Statement of Net Position	19	A-1
Statement of Activities	20	B-1
Governmental Fund Financial Statements		
Balance Sheet	22	C-1
Reconciliation of Balance Sheet for Governmental Funds to		
Statement of Net Position	23	C-2
Statement of Revenues, Expenditures, and Changes In Fund Balances	24	C-3
Reconciliation of the Statement of Revenues, Expenditures, and		
Changes in Fund Balances of Governmental Funds to the		
Statement of Activities	25	C-4
Proprietary Fund Financial Statements		
Statement of Net Position	26	D-1
Statement of Revenues, Expenses, and Changes In Fund Net Position	27	D-2
Statement of Cash Flows	28	D-3
Fiduciary Fund Financial Statements		
Statement of Fiduciary Net Position	29	E-1
Statement of Changes In Fiduciary Net Position	30	E-2
Notes to the Financial Statements	31	F-1
Required Supplementary Information:		
Budgetary Comparison Schedule - General Fund	60	G-1
Notes to Required Supplementary Information	61	G-2
Schedule of the District’s Proportionate Share of the Net Pension		
Liability – Teacher Retirement System of Texas	62	G-3
Schedule of the District’s Contributions – Teacher Retirement System of		
Texas	63	G-4
Notes to Required Supplementary Information – Pension	64	G-5
Other Supplementary Information:		
Combining Fund Statements:		
Nonmajor Governmental Funds:		
Combining Balance Sheet	66	H-1
Combining Statement of Revenues, Expenditures, and Changes In		
Fund Balance	70	H-2
Combining Statement of Net Position	74	H-3
Combining Statements of Revenues, Expenses and Changes in		
Fund Net Position	75	H-4
Combining Statement of Cash Flows	76	H-5
Fiduciary Funds:		
Agency Funds:		
Combining Statement of Fiduciary Net Position	77	H-6
Combining Statement of Changes in Fiduciary Net Position	78	H-7

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT

TABLE OF CONTENTS (continued)

	<u>Page</u>	<u>Exhibit</u>
Financial Section (continued)		
Required TEA Schedules		
Schedule of Delinquent Taxes Receivable	80	J-1
Budgetary Comparison Schedule - Child Nutrition Program Fund	82	J-4
Budgetary Comparison Schedule - Debt Service Fund	83	J-5
Federal Awards Section		
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	87	
Report on Compliance for each Major Federal Program and Report on Internal Control over Compliance Required by <i>the Uniform Guidance</i>	89	
Schedule of Findings and Questioned Costs	91	
Schedule of Expenditures of Federal Awards	93	K-1
Notes to Schedule of Expenditures of Federal Awards	94	K-2
Summary Schedule of Prior Audit Findings	95	
Corrective Action Plans	96	

CERTIFICATE OF BOARD

Friendswood Independent School District

Name of School District

Galveston

County

084-911

Co. - Dist. No.

We, the undersigned, certify that the attached annual financial reports of the above named school district were reviewed and approved for the year ended August 31, 2017, at a meeting of the board of trustees of such school district on December 11, 2017.



President of the Board



Vice President of the Board

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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 Friendswood Independent School District (the "District") as of and for the year ended August 31, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

To the Board of Trustees
Friendswood Independent School District

Opinions

In our opinion, the financial statements referred to in the first paragraph 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 District, as of August 31, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 7 through 15 and the budgetary comparison schedule and the required pension system information on pages 60 through 64 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining and individual nonmajor fund financial statements, and required Texas Education Agency ("TEA") schedules, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget ("OMB"); Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and is also not a required part of the basic financial statements.

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

To the Board of Trustees
Friendswood Independent School District

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2017 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Whitley Penn LLP

Houston, Texas
December 7, 2017

(This page intentionally left blank.)

MANAGEMENT'S DISCUSSION AND ANALYSIS

(This page intentionally left blank.)

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Friendswood Independent School District's annual financial report presents the administration's discussion and analysis of the District's financial performance during the fiscal period ended August 31, 2017. Please read it in conjunction with the District's financial statements, which follow this section.

Financial Highlights

The liabilities and deferred inflows of the District exceeded assets and deferred outflows at the close of the most recent fiscal year by (\$2,071,864) (net deficit). Of this amount, negative \$13,168,843 was net investment in capital assets, which represents the amount invested in capital assets net of accumulated depreciation and related debt, \$1,833,300 was restricted for debt service, \$548,777 was restricted for food service, \$4,293 was restricted for federal and state programs, \$20,985 was restricted for other purposes, and \$8,689,624 was unrestricted.

- The District's total net position decreased by \$4,678 during the current fiscal year.
- The District's governmental funds reported combined ending fund balances of \$17,144,308 as of August 31, 2017. Of this amount, \$883,708 is non-spendable in the form of (1) inventory in the amount of \$180,149 and (2) prepaid items in the amount of \$703,559. Fund balance of \$2,474,022 is restricted for (1) federal and state grants in the amount of \$553,070, (2) debt service in the amount of \$1,899,967, and (3) \$20,985 for other purposes. Fund balance of \$3,647,608 is committed for (1) disaster recovery of \$1.5 million and (2) decreases in state funding of \$1.2 million and (3) other committed in the amount of \$947,608. Fund balance of \$1,164,024 is assigned for capital expenditures for equipment. The remaining amount in fund balance of \$8,974,946 in the general is classified as unassigned and is available for spending at the District's discretion. This represents 18% of total general fund expenditures.
- The General Fund ended the year with unassigned fund balance of \$8,974,946, a decrease of \$49,255 as compared to the prior fiscal year.
- The District's bonded debt decreased by \$2,885,000 as a result of principal payments made during the current fiscal year.

Overview of the Financial Statements

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

Government-wide Financial Statements

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

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

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

The *Statement of Activities* presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused sick leave).

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

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a District's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

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

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Proprietary Funds

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

The District maintains individual enterprise funds for fuel and vending. *Enterprise funds*, a second type of proprietary fund, are used to report on activity for which a fee is charged to external users for goods or services. Enterprise funds are included within *business-type activities* in the government-wide financial statements.

Proprietary fund statements provide the same type of information as the government-wide financial statements, only in more detail. The nonmajor enterprise funds financial statements provide information for the Fuel Fund and Vending Fund.

Fiduciary Funds

The fiduciary funds are used to account for resources held for the benefit of students and employees. The fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the District's own programs.

An *agency fund* is a type of fiduciary fund used to report resources held by the District in a purely custodial capacity. The District accounts for the activities of student groups and refunds/overpayments due to taxpayers in this type of fund, which does not involve measurement of results of operations.

A *private purpose trust fund* is a second type of fiduciary fund. Private purpose trust funds are used to report all trust arrangements, other than those properly recorded in pension trust funds or investment trust funds, under which principal and income benefit individuals, private organizations, or other governments. The District accounts for student scholarships in a private purpose trust fund.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Required Supplementary Information

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

Other Information

The combining and individual fund statements and schedules and other supplementary information are presented immediately following the required supplementary information.

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

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a District's financial position. In the case of the District, liabilities and deferred inflows exceeded assets and deferred outflows by (\$2,071,864) at the close of the most recent fiscal year.

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

	Governmental Activities		Business-Type Activities		Totals	
	2017	2016	2017	2016	2017	2016
Current and other assets	\$ 22,490,879	\$ 21,475,304	\$ 31,371	\$ 23,799	\$ 22,522,250	\$ 21,499,103
Capital and non current assets	88,775,279	91,845,345			88,775,279	91,845,345
Total Assets	111,266,158	113,320,649	31,371	23,799	111,297,529	113,344,448
Deferred outflows	10,700,643	10,409,153			10,700,643	10,409,153
Total Deferred Outflows of Resources	10,700,643	10,409,153			10,700,643	10,409,153
Current liabilities	4,592,701	3,742,022	2,243	1,309	4,594,944	3,743,331
Long term liabilities	117,821,507	121,005,543			117,821,507	121,005,543
Total Liabilities	122,414,208	124,747,565	2,243	1,309	122,416,451	124,748,874
Deferred inflows	1,653,585	711,913			1,653,585	711,913
Total Deferred Inflows of Resources	1,653,585	711,913			1,653,585	711,913
Net Position:						
Net investment in capital assets	(13,168,843)	(13,427,745)			(13,168,843)	(13,427,745)
Restricted	2,407,355	2,137,488			2,407,355	2,137,488
Unrestricted	8,660,496	9,200,581	29,128	22,490	8,689,624	9,223,071
Total Net Position	\$ (2,100,992)	\$ (2,089,676)	\$ 29,128	\$ 22,490	\$ (2,071,864)	\$ (2,067,186)

Net position in the governmental activities are restricted for various purposes as follows:

	Governmental Activities	
	2017	2016
Federal and state programs	\$ 4,293	\$ 13,689
Food Service	548,777	637,846
Debt Service	1,833,300	1,485,953
Other Purposes	20,985	
	\$ 2,407,355	\$ 2,137,488

The remaining balance of unrestricted net position of \$8,660,496 in the governmental activities may be used to meet the District's ongoing obligations to students and creditors. At the end of the current fiscal year, the District reports positive balances in restricted and unrestricted net position in the governmental activities. The District reports negative net position in net investment in capital assets, which is reported net of outstanding related debt. The District's net position of the governmental activities decreased by \$11,316 during the current fiscal year.

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

The District's net position of the business-type activities had an ending balance of \$29,128, all of which is unrestricted and may be used to meet on-going obligations.

	Governmental Activities		Business-Type Activities		Totals	
	2017	2016	2017	2016	2017	2016
Program Revenues						
Charges for services	\$ 5,560,285	\$ 5,823,062	\$ 102,081	\$ 107,704	\$ 5,662,366	\$ 5,930,766
Operating grants	4,664,193	5,438,214			4,664,193	5,438,214
General Revenues						
Property taxes	38,161,940	34,627,062			38,161,940	34,627,062
State Aid - Formula Grants	14,823,880	16,841,121			14,823,880	16,841,121
Grants and contributions not restricted						
Interest earnings	153,308	70,132			153,308	70,132
Other	183,700	59,709			183,700	59,709
Total Revenues	63,547,306	62,859,300	102,081	107,704	63,649,387	62,967,004
Expenses						
Instruction	34,175,852	33,566,031			34,175,852	33,566,031
Instructional resources and media services	825,177	815,623			825,177	815,623
Curriculum and staff development	678,865	478,648			678,865	478,648
Instructional leadership	848,233	1,042,675			848,233	1,042,675
School leadership	3,316,289	3,148,271			3,316,289	3,148,271
Guidance, counseling, and evaluation services	1,370,772	1,072,211			1,370,772	1,072,211
Social work services	3,169	3,178			3,169	3,178
Health services	638,491	614,827			638,491	614,827
Student transportation	1,735,545	1,667,825			1,735,545	1,667,825
Food service	2,634,127	2,772,229			2,634,127	2,772,229
Extracurricular activities	2,531,771	2,494,533			2,531,771	2,494,533
General administration	2,681,473	2,439,634			2,681,473	2,439,634
Plant, maintenance and operations	6,125,739	6,026,119			6,125,739	6,026,119
Security and monitoring services	215,591	243,919			215,591	243,919
Data processing services	1,209,277	1,244,647			1,209,277	1,244,647
Community services	370,790	357,261			370,790	357,261
Interest on long-term debt	3,722,802	4,855,307			3,722,802	4,855,307
Facilities repairs	91,262	29,194			91,262	29,194
Payments related to shared services arrangements	99,200	88,519			99,200	88,519
Payments to Juvenile Justice Alternative Education Programs	27,348	21,949			27,348	21,949
Other governmental charges	290,336	261,127			290,336	261,127
Vending Fund			61,956	70,128	61,956	70,128
Total Expenses	63,592,109	63,243,727	61,956	70,128	63,654,065	63,313,855
Excess (deficiency) before transfers	(44,803)	(384,427)	40,125	37,576	(4,678)	(346,851)
Transfers	33,487	31,126	(33,487)	(31,126)		
Increase (Decrease) in Net Position	(11,316)	(353,301)	6,638	6,450	(4,678)	(346,851)
Beginning net position	(2,089,676)	(1,736,375)	22,490	16,040	(2,067,186)	(1,720,335)
Ending Net Position	\$ (2,100,992)	\$ (2,089,676)	\$ 29,128	\$ 22,490	\$ (2,071,864)	\$ (2,067,186)

Governmental Activities

Governmental activities decreased the District's net position by \$11,316. Revenues are generated primarily from three sources. Property taxes, state-aid formula grants, and operating grants and contributions represent 90 percent of total revenues. The remaining 10 percent is generated from charges for services, investment earnings, and miscellaneous revenues.

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

	<u>Total Revenues</u>	<u>% of Total Revenues</u>
Property taxes	\$ 38,161,940	60%
State Aid - Formula Grants	14,823,880	23%
Operating grants and contributions	4,664,193	7%
Charges for services	5,560,285	9%
Other revenue	337,008	1%
Total Revenues	<u>\$ 63,547,306</u>	<u>100%</u>

The primary functional expense of the District is instruction, which represents 53 percent of total expenses. Plant maintenance and operations represents 10 percent of the total expenses. The remaining individual functional categories of expenses are each less than 10 percent of total expenses.

	<u>Total Expenses</u>	<u>% of Total Expenses</u>
Instruction	\$ 34,175,857	53%
Interest on long-term debt	3,722,802	6%
School Leadership	3,316,289	5%
Plant maintenance and Operations	6,125,739	10%
Other expenses	16,251,427	26%
Total Expenses	<u>\$ 63,592,114</u>	<u>100%</u>

Business-Type Activities

Net position of the District's business type activities increased by \$6,638 for the year ended August 31, 2017.

Financial Analysis of the Government's Funds

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

Governmental Funds

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

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$17,144,308, an increase of \$376,843 in comparison with the prior year.

The general fund is the chief operating fund of the District. At the end of the current fiscal year, unassigned fund balance of the general fund was \$8,974,946, while total fund balance reached \$12,553,964. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 18 percent of expenditures and total fund balance represents 25 percent of the same amount.

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

During the current fiscal year, the total fund balance of the District's general fund did not change, while total general fund expenditures showed an increase of \$3,094,241. The increase in expenditures was primarily due to new personnel costs, teacher salary increases ranging between 2.5%, and a 3.1% salary increase given to all other full-time employees.

The debt service fund has a total fund balance of \$1,899,967, all of which is restricted for the payment of debt service. The net increase in the debt service fund balance during the current year of \$346,554 was in line with budgeted expectations.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget of the general fund are summarized as follows:

	Budget	
	Original	Final Amended
Total revenues	\$ 47,950,000	\$ 47,978,609
Total expenditures	47,950,000	49,993,596
Net change in fund balance	\$	\$ (2,014,987)

Capital Assets and Long-Term Liabilities

Capital Assets

The District's investment in capital assets for its governmental type activities as of August 31, 2017, includes land, buildings and improvements, and furniture and equipment. The investment in capital assets (capital outlays) during the current year amounted to \$2,759,553. The following table summarizes the investment in capital assets as of August 31, 2017 and 2016.

	Balance August 31, 2017	Balance August 31, 2016
Land	\$ 2,453,779	\$ 2,282,209
Buildings and improvements	142,848,246	140,910,984
Furniture and equipment	10,892,208	10,354,501
	<u>156,214,792</u>	<u>153,547,694</u>
Less accumulated depreciation for:		
Buildings and improvements	(61,023,752)	(56,162,000)
Furniture and Equipment	(6,562,375)	(5,900,349)
	<u>(67,586,127)</u>	<u>(62,062,349)</u>
Governmental Capital Assets	\$ 88,628,665	\$ 91,485,345

Additional information on the District's capital assets can be found in the notes to the financial statements.

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
MANAGEMENT’S DISCUSSION AND ANALYSIS (continued)

Long-term Liabilities

At the end of the current fiscal year, the District had \$94,265,000 in bonded debt outstanding, a decrease of \$2,885,000 over the previous year. The District’s bonds are sold with a “AAA” rating and are guaranteed through the Texas Permanent School Fund Guarantee Program. The underlying rating of the bonds from Standard and Poor’s is “AA” and from Moody’s Investors Service is “Aa3” for general obligation debt.

Changes in long-term debt, for the year ended August 31, 2017, are as follows:

Outstanding 09/01/16	Issued	Retired	Outstanding 08/31/17
\$ 97,150,000	\$	\$ (2,885,000)	\$ 94,265,000

Additional information on the District’s long-term liabilities can be found in the notes to the financial statements.

Economic Factors and Next Year’s Budgets and Rates

Indicators, both financial and non-financial, that will impact the District in the immediate future are:

- The District’s enrollment was projected to remain stable at approximately 6050 students at the time the 2017-2018 budget was adopted.
- For 2017-2018, the maintenance and operations tax rate is \$1.13, while the debt service tax rate is \$.237. The maintenance and operations tax rate remained the same, but the debt service rate decreased by two cents compared to 2016-2017.
- Net taxable property values in the District have increased 8.678% over the prior year. The average taxable value of a residence in Friendswood has shown a seven-year upward trend increasing from an average taxable value in 2009 of \$223,820 to \$307,877 in 2017. From the increase in tax rates and taxable property values, the District estimates an increase in general fund tax revenue of \$2.1M offset by a decrease in state funding of \$1.9M, for a net increase of \$200K in 2017-18.
- Operating expenses per student in the District’s general fund were \$8,126 for 2016-2017. Operating expenses per student for the 2017-2018 fiscal year are projected to be \$8,256.
- Expenditures are budgeted to increase 1.6% or \$800,000. This increase is primarily due to a salary increase of \$2,500 for every teacher bands and a 3% pay increase given to all other full-time employees.
- Construction from commercial and residential new property development is expected to increase taxable values by an estimated \$36M in the near future.

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

These indicators were taken into account when adopting the budget for 2017-2018. The Friendswood Independent School District general fund adopted budget for 2017–2018 is as follows:

<u>General Fund Budget</u>	<u>Original</u>
Budgeted Revenues	\$ 49,950,000
Budgeted Expenditures	<u>49,950,000</u>
	<u><u>\$</u></u>

Contacting the District's Financial Management

This financial report is designed to provide the citizens, taxpayers, customers, 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 District's Business Office at Friendswood Independent School District, 302 Laurel Drive, Friendswood, TX 77546. You may also view previous year's financial reports on the District's website at www.myfisd.com.

(This page intentionally left blank.)

BASIC FINANCIAL STATEMENTS

(This page intentionally left blank.)

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT

Exhibit A-1

STATEMENT OF NET POSITION

August 31, 2017

<u>Data Control Codes</u>		<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
	Assets			
1110	Cash and cash equivalents	\$ 19,684,970	\$ 28,862	\$ 19,713,832
1225	Property taxes receivables, net	590,793		590,793
1240	Due from other governments	1,117,675		1,117,675
1267	Due from fiduciary funds	29,044		29,044
1290	Other receivables, net	181,019	2,509	183,528
1300	Inventories	180,149		180,149
1410	Prepaid items	707,229		707,229
	Capital assets not subject to depreciation:			
1510	Land	2,453,779		2,453,779
1580	Construction in progress	20,559		20,559
	Capital assets net of depreciation:			
1520	Buildings and improvements, net	81,824,494		81,824,494
1530	Furniture and equipment, net	4,329,833		4,329,833
1910	Long-term investments	146,614		146,614
1000	Total Assets	<u>111,266,158</u>	<u>31,371</u>	<u>111,297,529</u>
	Deferred Outflows of Resources			
1700	Deferred charge on refunding	4,925,453		4,925,453
1705	Deferred outflows relating to pension activities	5,775,190		5,775,190
	Total deferred outflows of resources	<u>10,700,643</u>		<u>10,700,643</u>
	Liabilities			
2110	Accounts payable	805,179	2,243	807,422
2140	Interest payable	176,647		176,647
2150	Payroll deductions and withholdings	3,624		3,624
2160	Accrued wages payable	3,045,938		3,045,938
2300	Unearned revenue	561,313		561,313
	Noncurrent Liabilities:			
2501	Due within one year	2,910,652		2,910,652
2502	Due in more than one year	104,929,893		104,929,893
2540	Net pension liability	9,980,962		9,980,962
2000	Total Liabilities	<u>122,414,208</u>	<u>2,243</u>	<u>122,416,451</u>
	Deferred Inflows of Resources			
2600	Deferred inflows relating to pension activities	1,653,585		1,653,585
	Total deferred inflows of resources	<u>1,653,585</u>		<u>1,653,585</u>
	Net Position			
3200	Net investment in capital assets	(13,168,843)		(13,168,843)
	Restricted for:			
3820	Federal and state programs	4,293		4,293
3840	Food service	548,777		548,777
3850	Debt service	1,833,300		1,833,300
3890	Other purposes	20,985		20,985
3900	Unrestricted	8,660,496	29,128	8,689,624
3000	Total Net Position (Deficit)	<u>\$ (2,100,992)</u>	<u>\$ 29,128</u>	<u>\$ (2,071,864)</u>

See Notes to the Financial Statements

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

For the Year Ended August 31, 2017

Data Control Codes	Functions/Programs	Expenses	Program Revenue	
			Charges for Services	Operating Grants and Contributions
	Governmental activities:			
11	Instruction	\$ 34,175,852	\$ 2,271,513	\$ 3,328,004
12	Instructional resources and media services	825,177		41,554
13	Curriculum and staff development	678,865	38,020	109,044
21	Instructional leadership	848,233		47,836
23	School leadership	3,316,289		207,701
31	Guidance, counseling, and evaluation services	1,370,772		77,662
32	Social work services	3,169		
33	Health services	638,491		40,486
34	Student transportation	1,735,545		107,923
35	Food service	2,634,127	2,258,816	214,959
36	Extracurricular activities	2,531,771	301,932	78,470
41	General administration	2,681,473		119,492
51	Plant, maintenance and operations	6,125,739	362,515	202,071
52	Security and monitoring services	215,591		
53	Data processing services	1,209,277		71,991
61	Community services	370,790	327,489	17,000
72	Interest on long-term debt	3,722,802		
81	Facilities repairs	91,262		
93	Payments related to shared services	99,200		
95	Payments to Juvenile Justice Alternative	27,348		
99	Other governmental charges	290,336		
TG	Total governmental activities	<u>63,592,109</u>	<u>5,560,285</u>	<u>4,664,193</u>
	Business-type activities			
01	Fuel Fund		6,638	
02	Vending Fund	61,956	95,443	
TB	Total business-type activities	<u>61,956</u>	<u>102,081</u>	
TP	Total primary government	<u>\$ 63,654,065</u>	<u>\$ 5,662,366</u>	<u>\$ 4,664,193</u>

Data Control Codes

General revenues:

Taxes:

- MT** Property taxes, levied for general purposes
- DT** Property taxes, levied for debt service
- SF** State-aid formula grants
- IE** Investment earnings
- MI** Miscellaneous
- FR** Transfers
- TR** **Total general**
- CN** Change in net position
- NB** **Net position - beginning**
- NE** **Net position - ending**

See Notes to the Financial Statements

Exhibit B-1

Net (Expense) Revenue and Changes in Net Position		
Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (28,576,335)		\$ (28,576,335)
(783,623)		(783,623)
(531,801)		(531,801)
(800,397)		(800,397)
(3,108,588)		(3,108,588)
(1,293,110)		(1,293,110)
(3,169)		(3,169)
(598,005)		(598,005)
(1,627,622)		(1,627,622)
(160,352)		(160,352)
(2,151,369)		(2,151,369)
(2,561,981)		(2,561,981)
(5,561,153)		(5,561,153)
(215,591)		(215,591)
(1,137,286)		(1,137,286)
(26,301)		(26,301)
(3,722,802)		(3,722,802)
(91,262)		(91,262)
(99,200)		(99,200)
(27,348)		(27,348)
(290,336)		(290,336)
<u>(53,367,631)</u>		<u>(53,367,631)</u>
	\$ 6,638	6,638
	<u>33,487</u>	<u>33,487</u>
	<u>40,125</u>	<u>40,125</u>
<u>(53,367,631)</u>	<u>40,125</u>	<u>(53,327,506)</u>
31,104,585		31,104,585
7,057,355		7,057,355
14,823,880		14,823,880
153,308		153,308
183,700		183,700
33,487	(33,487)	
<u>53,356,315</u>	<u>(33,487)</u>	<u>53,322,828</u>
(11,316)	6,638	(4,678)
<u>(2,089,676)</u>	<u>22,490</u>	<u>(2,067,186)</u>
<u>\$ (2,100,992)</u>	<u>\$ 29,128</u>	<u>\$ (2,071,864)</u>

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT

Exhibit C-1

BALANCE SHEET

GOVERNMENTAL FUNDS

August 31, 2017

<u>Data Control Codes</u>	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
1110 Cash and temporary investments	\$ 14,416,793	\$ 1,884,407	\$ 2,818,353	\$ 19,119,553
Receivables:				
1220 Property taxes - delinquent	551,428	147,075		698,503
1230 Allowance for uncollectible taxes (credit)	(86,174)	(21,535)		(107,709)
1240 Receivables from other governments	742,197		375,478	1,117,675
1260 Due from other funds	318,740			318,740
1290 Other receivables	52,804		128,215	181,019
1300 Inventories, at cost	180,149			180,149
1410 Prepaid items	698,869		8,360	707,229
1910 Long-term investments	146,614			146,614
1000 Total Assets	<u>\$ 17,021,420</u>	<u>\$ 2,009,947</u>	<u>\$ 3,330,406</u>	<u>\$ 22,361,773</u>
Liabilities, Deferred Inflows and Fund Balances				
Liabilities:				
2110 Accounts payable	\$ 479,703	\$	\$ 325,476	\$ 805,179
2150 Payroll withholdings payable	3,624			3,624
2160 Accrued wages payable	3,035,919		10,019	3,045,938
2170 Due to other funds			289,696	289,696
2300 Unearned revenues	546,475		14,838	561,313
2000 Total Liabilities	<u>4,065,721</u>		<u>640,029</u>	<u>4,705,750</u>
Deferred Inflows of Resources				
2600 Unavailable revenue - property taxes	401,735	109,980		511,715
Total Deferred Inflows of Resources	<u>401,735</u>	<u>109,980</u>		<u>511,715</u>
Fund Balances:				
Nonspendable:				
3410 Inventories	180,149			180,149
3430 Prepaid items	698,869		4,690	703,559
Restricted:				
3450 Grant restrictions			553,070	553,070
3480 Debt service		1,899,967		1,899,967
3490 Other purposes			20,985	20,985
Committed:				
3545 Other purposes	2,700,000		947,608	3,647,608
Assigned:				
3570 Capital expenditures for equipment			1,164,024	1,164,024
3600 Unassigned	8,974,946			8,974,946
3000 Total Fund Balances	<u>12,553,964</u>	<u>1,899,967</u>	<u>2,690,377</u>	<u>17,144,308</u>
4000 Total Liabilities, Deferred Inflows and Fund Balances	<u>\$ 17,021,420</u>	<u>\$ 2,009,947</u>	<u>\$ 3,330,406</u>	<u>\$ 22,361,773</u>

See Notes to the Financial Statements

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF BALANCE SHEET FOR GOVERNMENTAL FUNDS
TO STATEMENT OF NET POSITION
August 31, 2017

Exhibit C-2

Data Control Codes		
	Total fund balance, governmental funds	\$ 17,144,308
	Amounts reported for governmental activities in the statement of net position are different because:	
1	Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. Capital assets at historical cost, net of accumulated depreciation, where applicable.	88,628,665
2	Property taxes receivable have been levied and are due this year, but are not available soon enough to pay for the current period's expenditures, these property taxes and related penalty and interest amounts (net of allowance for uncollectible accounts).	511,715
3	Deferred charges on refunding	4,925,452
4	Deferred inflows relating to pension activities	(1,653,585)
	Long-term liabilities, including bonds payable, are not due and payable in the current period, and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:	
5	General obligation bonds	(94,265,000)
6	Premiums on issuance	(12,457,960)
7	Accreted interest on premium compound interest bonds	(232,917)
8	Accrued compensated absences	(884,668)
9	Accrued interest payable	(176,647)
10	Net pension liability	(9,980,962)
11	Deferred outflows relating to pension activities	5,775,190
12	Addition of Internal Service fund net position	<u>565,417</u>
19	Total net deficit - governmental activities	<u>\$ (2,100,992)</u>

See Notes to the Financial Statements

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - GOVERNMENTAL FUNDS
For the Year Ended August 31, 2017

Exhibit C-3

Data Control Codes	General Fund	Debt Service Fund	Total Nonmajor Governmental Funds	Total Governmental Funds
Revenues				
5700 Local, intermediate, and out-of-state	\$ 33,078,455	\$ 7,079,690	\$ 3,869,941	\$ 44,028,086
5800 State program revenues	16,875,941	265,293	518,484	17,659,718
5900 Federal program revenues			1,399,185	1,399,185
5020 Total Revenues	<u>49,954,396</u>	<u>7,344,983</u>	<u>5,787,610</u>	<u>63,086,989</u>
Expenditures				
Current:				
0011 Instruction	27,971,314		2,286,073	30,257,387
0012 Instruction resources and media services	676,344		57,450	733,794
0013 Curriculum and instructional staff development	516,209		93,447	609,656
0021 Instructional leadership	735,916		5,975	741,891
0023 School leadership	2,855,248		55,961	2,911,209
0031 Guidance, counseling and evaluation services	1,174,682		26,464	1,201,146
0032 Social work services	1,500		1,500	3,000
0033 Health services	560,947		146	561,093
0034 Student transportation	1,774,152		99,582	1,873,734
0035 Food services			2,751,663	2,751,663
0036 Extracurricular activities	1,853,173		482,234	2,335,407
0041 General administration	2,377,896			2,377,896
0051 Facilities maintenance and operations	5,466,233		29,959	5,496,192
0052 Security and monitoring services	192,053		2,099	194,152
0053 Data processing services	1,086,522		68,472	1,154,994
0061 Community services	330,836			330,836
Debt service:				
0071 Principal on long-term debt		2,885,000		2,885,000
0072 Interest on long-term debt		4,113,429		4,113,429
Capital outlay:				
0081 Facilities acquisition and construction	1,162,186		632,084	1,794,270
Intergovernmental:				
0093 Payments related to shared services arrangements	99,200			99,200
0095 Payments to Juvenile Justice Alternative Education Program	27,348			27,348
0099 Other intergovernmental charges	290,336			290,336
6030 Total Expenditures	<u>49,152,095</u>	<u>6,998,429</u>	<u>6,593,109</u>	<u>62,743,633</u>
1100 Excess (deficiency) of revenues over expenditures	<u>802,301</u>	<u>346,554</u>	<u>(805,499)</u>	<u>343,356</u>
Other Financing Sources (Uses)				
7915 Transfers in	1,163		836,951	838,114
8911 Transfers out	<u>(803,464)</u>		<u>(1,163)</u>	<u>(804,627)</u>
7080 Total other financing sources (uses)	<u>(802,301)</u>		<u>835,788</u>	<u>33,487</u>
1200 Net change in fund balances		346,554	30,289	376,843
0100 Fund Balance - September 1 (Beginning)	<u>12,553,964</u>	<u>1,553,413</u>	<u>2,660,088</u>	<u>16,767,465</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ 12,553,964</u>	<u>\$ 1,899,967</u>	<u>\$ 2,690,377</u>	<u>\$ 17,144,308</u>

See Notes to the Financial Statements

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended August 31, 2017

Exhibit C-4

<u>Data Control Codes</u>	
Net change in fund balances - total governmental funds (from C-3)	\$ 376,843
Amounts reported for governmental activities in the statement of activities (B-1) are different because:	
1 Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	
Capital Outlay	2,759,552
Depreciation Expense	(5,616,233)
2 Property tax revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	25,865
3 Pension contributions made after the net pension liability date are reported as expenditures in the governmental funds and are reported as deferred outflows on the face of the statement of net position.	955,270
4 Repayment of bond principal, including payment to bond refunding agent, is an expenditure in the governmental fund, but the repayment reduces long-term liabilities in the statement of net position.	2,885,000
Some expenses reported in the statement of activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds:	
5 Pension expense for the pension plan measurement year	(1,692,854)
6 Decrease in interest payable not recognized in fund statements	3,616
7 Amortization of bond premium	690,286
8 Amortization of deferred loss on refunded bonds	(299,154)
9 Accreted interest on capital appreciation bonds	(4,121)
10 (Increase) in long-term portion of accrued compensated absences payable	(3,253)
11 Internal service funds are used by management to charge the costs of certain activities, such as insurance and telecommunications, to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities (see D-2).	(92,133)
Change in net position of governmental activities (see B-1)	<u>\$ (11,316)</u>

See Notes to the Financial Statements

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT

Exhibit D-1

STATEMENT OF NET POSITION

PROPRIETARY FUNDS

August 31, 2017

<u>Data Control Codes</u>	<u>Business-type Activities - Enterprise Funds</u>	<u>Governmental Activities - Internal Service Fund</u>
Assets		
Current Assets:		
1110	\$ 28,862	\$ 565,417
1290	2,509	
	<u>31,371</u>	<u>565,417</u>
	Total Current Assets	
1000	<u>31,371</u>	<u>565,417</u>
	Total Assets	
Liabilities		
Current Liabilities:		
2110	2,243	
	<u>2,243</u>	
	Total Current Liabilities	
2000	<u>2,243</u>	
	Total Liabilities	
Net Position		
3900	29,128	565,417
3000	<u>\$ 29,128</u>	<u>\$ 565,417</u>
	Total Net Position	

See Notes to the Financial Statements.

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
For the Year Ended August 31, 2017

Exhibit D-2

<u>Data Control Codes</u>		<u>Business-type Activities - Enterprise Funds</u>	<u>Governmental Activities - Internal Service Fund</u>
	Operating Revenues		
5754	Charges for services	\$ 102,081	\$
5020	Total Operating Revenues	<u>102,081</u>	<u></u>
	Operating Expenses		
6200	Purchased and contracted services	56,055	
6400	Claims expense and other operating expenses	<u>5,901</u>	<u>97,414</u>
6030	Total Operating Expenses	<u>61,956</u>	<u>97,414</u>
1200	Operating Income	<u>40,125</u>	<u>(97,414)</u>
	Non-Operating Revenues (Expenses)		
7955	Investment earnings	<u></u>	<u>5,281</u>
	Total Nonoperating Revenues (Expenses)	<u></u>	<u>5,281</u>
	Income before Transfers	40,125	(92,133)
	Transfers		
8911	Transfers out	<u>(33,487)</u>	<u></u>
1200	Change in Net Position	6,638	(92,133)
0100	Net Position - September 1 (Beginning)	<u>22,490</u>	<u>657,550</u>
3300	Net Position - August 31 (Ending)	<u>\$ 29,128</u>	<u>\$ 565,417</u>

See Notes to the Financial Statements.

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended August 31, 2017

Exhibit D-3

	Business-type Activities - Enterprise Funds	Governmental Activities - Internal Service Fund
Cash Flows from Operating Activities:		
Cash received from user charges	\$ 101,711	\$
Cash payments for insurance claims		(100,094)
Cash payments to suppliers for goods and services	<u>(61,956)</u>	<u></u>
Net Cash Provided by (Used for) Operating Activities	<u>39,755</u>	<u>(100,094)</u>
Cash Flows from Non-Capital Financing Activities:		
Advances to other funds	<u>(33,487)</u>	<u></u>
Net Cash Provided by (Used for) Non-Capital Financing Activities	<u>(33,487)</u>	<u></u>
Cash Flows from Investing Activities:		
Interest on investments	<u></u>	<u>5,281</u>
Net Cash Provided by Investing Activities	<u></u>	<u>5,281</u>
Net Increase(Decrease) in Cash and Cash Equivalents	6,268	(94,813)
Cash and Cash Equivalents at Beginning of Year	<u>22,594</u>	<u>660,230</u>
Cash and Cash Equivalents at End of Year	<u>\$ 28,862</u>	<u>\$ 565,417</u>
Reconciliation to Balance Sheet		
Cash and Cash Equivalents Per Cash Flow	<u>\$ 28,862</u>	<u>\$ 565,417</u>
Cash and Cash Equivalents per Balance Sheet	<u>\$ 28,862</u>	<u>\$ 565,417</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating Income (Loss)	\$ 40,125	\$ (97,414)
Change in Assets and Liabilities:		
Decrease (increase) in Receivables	(1,304)	
Increase (decrease) in Accounts Payable	<u>934</u>	<u>(2,680)</u>
Net Cash Provided by (Used for) Operating Activities	<u>\$ 39,755</u>	<u>\$ (100,094)</u>

See Notes to the Financial Statements.

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT

Exhibit E-1

STATEMENT OF FIDUCIARY NET POSITION

August 31, 2017

<u>Data Control Codes</u>		<u>Private Purpose Trust Funds</u>	<u>Agency Fund</u>
	Assets		
1110	Cash and cash equivalents	\$ 14,221	\$ 676,457
	Total Assets	<u>\$ 14,221</u>	<u>\$ 676,457</u>
	Liabilities		
2110	Accounts payable	\$ 1,000	\$ 153,728
2120	Other liabilities - current		1,141
2170	Due to other funds		26,310
2190	Due to student groups		358,851
2200	Other Accrued expenses		136,427
2000	Total Liabilities	<u>1,000</u>	<u>\$ 676,457</u>
	Net Position		
3800	Restricted	<u>\$ 13,221</u>	

See Notes to the Financial Statements.

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
For the Year Ended August 31, 2017

Exhibit E-2

	Private Purpose Trust Funds
Additions	
Gifts and contributions	\$
Total additions	<u> </u>
Deductions	
Non-operating expenses	<u> 1,000</u>
Total deductions	<u> 1,000</u>
Change in net position	(1,000)
Net position beginning of year	<u> 14,221</u>
Net position end of year	<u> \$ 13,221</u>

See Notes to the Financial Statements.

Note 1 - Summary of Significant Accounting Policies

Reporting Entity

The Friendswood Independent School District (District) is governed by a seven-member Board of Trustees (Board), which has governance responsibilities over all activities related to public elementary and secondary education within the District. Because members of the Board are elected by the public; have authority to make decisions; appoint management and significantly influence operations; and have primary accountability for fiscal matters; the District is not included in any other governmental reporting entity. The accompanying financial statements present the District. There are no component units, entities for which the District is considered to be financially accountable, included within the reporting entity.

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

Government-wide and Fund Financial Statements

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

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The proprietary and private purpose trust funds are reported using the economic resources measurement focus and the accrual basis of accounting. The agency fund has no measurement focus, but utilizes the accrual basis of accounting for reporting its assets and liabilities.

Note 1 - Summary of Significant Accounting Policies (continued)

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

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

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

The District reports the following major governmental funds:

- The *general fund* is the District's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The *debt service fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

Additionally, the District reports the following fund types:

Proprietary Funds

- The *enterprise fund* accounts for activities for which outside users are charged a fee roughly equal to the cost of providing the goods or services of those activities. The District's nonmajor enterprise funds are the fuel fund and the vending fund.
- The *internal service fund* accounts for workers' compensation benefits provided to other funds and/or employees of the District on a cost reimbursement basis.

Fiduciary Funds

- The *private purpose trust fund* is used to report all trust arrangements by the District. This fund type is used to account for the District's scholarship funds.
- The *agency fund* is used to account for assets held by the District as an agent for student organizations and taxpayer refunds and overpayments. The fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operation.

Nonmajor governmental funds of the District include federal, state and local grant funds accounted for as *special revenue funds*. Additionally, the *capital projects fund*, which is used to account for the proceeds from sales of bonds and other revenues to be used for authorized construction and technology projects/enhancements, is included in the nonmajor governmental funds of the District.

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

Note 1 - Summary of Significant Accounting Policies (continued)

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

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

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations.

Operating expenses for the internal service fund include the cost of services and administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

Deposits and Investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, investment pools, and short-term investments with original maturities of three months or less from the date of acquisition. Investments for the District are reported at fair value. The funds of the District must be deposited and invested under the terms of a depository contract, the contents of which are set out in the Depository Contract Law. The depository bank may either place approved pledged securities for safekeeping and trust with the District's agent bank or file a corporate surety bond 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 FDIC insurance. The depository cash balances were covered by FDIC insurance and by collateral held by the District's agent in the District's name. The District categorizes fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; level 3 inputs are significant unobservable inputs. The District's local government investment pools are recorded at amortized costs as permitted by GASB Statement No. 79 *Certain Investment Pools and Pool Participants*.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

Note 1 - Summary of Significant Accounting Policies (continued)

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

Receivables and Payables (continued)

Property tax receivables include unpaid property taxes at year-end along with penalties and interest assessed on these unpaid taxes and are shown net of an allowance for uncollectibles. The property tax receivable allowance is based on historical collections. Revenues from property taxes are recognized when levied to the extent they are available. The District considers property taxes as available when collected. However, not all outstanding property taxes are expected to be collected within one year of the date of the financial statements. Property values are determined by the Galveston Central Appraisal District as of January 1 of each year. The amount of net assessed values for fiscal year 2017 (tax year 2016) were \$2,735,343,475. Prior to September 1 of each year, the District must adopt its annual budget and as soon thereafter as practicable, shall adopt a tax rate thus creating the tax levy. The District's combined tax rate was \$1.387, which included \$1.13 for maintenance and operations, and \$.257 for debt service. Property taxes for the current calendar year are levied on approximately October 1 of each year and are payable by January 31 of the following year. Property tax receivables are recorded as of the date levied. The total levy for the 2017 fiscal year was \$37,939,214. Unpaid taxes become delinquent on February 1 and a tax lien on real property is created as of July 1 of each year.

Inventories and Prepaid Items

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

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets

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

Note 1 - Summary of Significant Accounting Policies (continued)

Capital Assets (continued)

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

<u>Assets</u>	<u>In Years</u>
Buildings and improvements	9 - 30
Furniture and equipment	5 - 25

Compensated Absences

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

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

Long-term Obligations

The District's long-term obligations consist of bonded indebtedness, workers' compensation, and compensated absences. In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities and proprietary fund type statement of net position. Bond premiums and discounts amortized over the life of the bonds using the bonds outstanding method, which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are recognized as an expense in the period incurred.

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

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

Note 1 - Summary of Significant Accounting Policies (continued)

Deferred Outflows/Inflows of Resources

A *deferred outflow of resources* is a consumption of a government's net assets (a decrease in assets in excess of any related decrease in liabilities or an increase in liabilities in excess of any related increase in assets) by the government that is applicable to a future reporting period. The District has two items that qualify for reporting in this category:

- Deferred outflows of resources for refunding - Reported in the government-wide statement of net position, this deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.
- Deferred outflows of resources for pension – Reported in the government wide financial statement of net position, this deferred outflow results from pension plan contributions made after the measurement date of the net pension liability and the results of 1) differences between projected and actual earnings on pension plan investments; 2) changes in actuarial assumptions; 3) differences between expected and actual actuarial experiences and 4) changes in the District's proportional share of pension liabilities. The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the next fiscal year. The deferred outflows resulting from differences between projected and actual earnings on pension plan investments will be amortized over a closed five year period. The remaining pension related deferred outflows will be amortized over the expected remaining service lives of all employees (active and inactive employees) that are provided with pensions through the pension plan.

A *deferred inflow of resources* is an acquisition of a government's net assets (an increase in assets in excess of any related increase in liabilities or a decrease in liabilities in excess of any related decrease in assets) by the government that is applicable to a future reporting period. The District has two items that qualify for reporting in this category:

- Deferred inflows of resources for unavailable revenues - Reported only in the governmental funds balance sheet, unavailable revenues from property taxes arise under the modified accrual basis of accounting. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.
- Deferred inflows of resources for pension – Reported in the government wide financial statement of net position, these deferred inflows result primarily from 1) changes in actuarial assumptions; 2) differences between expected and actual actuarial experiences and 3) changes in the District's proportional share of pension liabilities. These pension related deferred inflows will be amortized over the expected remaining service lives of all employees (active and inactive employees) that are provided with pensions through the pension plan.

Pensions

The fiduciary net position of the Teacher Retirement System of Texas (TRS) has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, and information about assets, liabilities and additions to/deductions from TRS's fiduciary net position. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Note 1 - Summary of Significant Accounting Policies (continued)

Net Position and Fund Balances

Friendswood Independent School District reports fund balances in accordance with GASB Statement No. 54 "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

Nonspendable fund balance – amounts that are not in spendable form or are required to be maintained intact. As such, inventory and prepaid items have been properly classified in the Governmental Funds Balance Sheet (Exhibit C-1).

Restricted fund balance – Amounts that can be spent only for specific purposes because of local, state or federal laws, or externally imposed conditions by grantors or creditors.

Committed fund balance – amounts constrained to specific purposes by the District itself, using its highest level of decision-making authority (i.e. the Board of Trustees). To be reported as committed, amounts cannot be used for any other purposes unless the District takes the same highest level of action to remove or change the constraint. The District establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. A fund balance commitment is further indicated in the budget document as a commitment of the fund. The District has committed 100 percent of Fund 461 Campus Activity Funds' fund balance, \$1,200,000 in the General Fund for a loss in State funding and \$1,500,000 in the General Fund for disaster recovery.

Assigned fund balance – amounts the District intends to use for a specific purpose. Intent can be expressed by the District or by an official or body to which the Board of Trustees delegates the authority. The Board has delegated authority to the Superintendent to establish fund balance assignments.

Unassigned fund balance – amounts that are available for any purpose. Positive amounts are reported only in the general fund.

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

Data Control Codes

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

Use of Estimates

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

Note 1 - Summary of Significant Accounting Policies (continued)

Implementation of New Standards

In the current fiscal year, the District implemented the following new standards. The applicable provisions of these new standards are summarized below. Implementation is reflected in the financial statements and the notes to the financial statements.

GASB Statement No. 82, *Pension Issues-An amendment of GASB Statements No. 67, No. 68 and No. 73*, addresses the presentation of payroll-related measures in required supplementary information, selection of assumptions and the treatment of deviations from the guidance in an actuarial standard of practice for financial reporting purposes, and the classification of payments made by employers to satisfy employee contribution requirements.

GASB Statement No. 77, *Tax Abatement Disclosures*, applies to financial reports of all state and local governmental entities, addresses the reduction of tax revenues resulting from an agreement between a government and an individual in which the government forgoes tax revenues and the individual promises to take specific action as a result of the agreement that contributes to the economic development to benefit the government or citizens of the government, and relates to agreements entered into by the reporting government or agreements entered into by other governments that reduce the reporting government's tax revenues. In fiscal year 2017, the District did not have any tax abatement agreements that require disclosures.

Note 2 - Deposits and Investments

Cash Deposits

The District's funds are required to be deposited and invested under the terms of a depository contract pursuant to the Texas School Depository Act. The depository bank pledges securities which comply with state law and these securities are held for safekeeping and trust with the District's and the depository bank's agent bank. The pledged securities are approved by the Texas Education Agency and shall be in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance. At August 31, 2017, the District's cash in bank totaled \$153,932 while the carrying value was \$5,213,314. Pledged collateral and FDIC insurance for these deposits totaled \$5,081,929. Certificates of deposit at August 31, 2017 totaled \$2,400,000. Pledged collateral and NCUSIF insurance for the certificates of deposit totaled \$2,416,263. As such, the District's cash and certificates of deposit were properly collateralized at August 31, 2017.

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

Note 2 - Deposits and Investments (continued)

Investments

For fiscal year 2017, the District invested in the State of Texas Texpool, the State of Texas TexSTAR Investment Pool, MBIA Texas Class Investment Pool, the Texas Association of School Boards Lone Star Investment Pool and TD Ameritrade. Texpool, TexSTAR and Lone Star operate in a manner consistent with the Security and Exchange Commission's Rule 2a7 of the Investment Company Act of 1940. Texpool is duly chartered and overseen by the State Comptroller's Office and administered by Federated Investors, Inc. The State Street Bank is the custodial bank. The portfolio consists of U.S. T-Bills, T-Notes, collateralized repurchase and reverse repurchase agreements, and no-load money market mutual funds regulated by the Securities and Exchange Commission and rated AAA or equivalent by at least one nationally recognized rating service. Lone Star Investment Pool is duly chartered by the State of Texas Interlocal Cooperation Act, is administered by First Public, LLC, and managed by Standish Mellon and American Beacon Advisors. The Bank of New York is the custodial bank. Lone Star Investment Pool is restricted to invest in obligations of the United States or its agencies and instrumentalities; other obligations insured by the United States; fully collateralized repurchase agreements having a defined termination date, secured by obligations described previously; and SEC-registered no-load money market mutual funds, the assets which consist exclusively of the obligations described above.

TexSTAR Investment Pool is duly chartered by the State of Texas Interlocal Cooperation Act, is administered and managed by JPMorgan Fleming Asset Management, Inc. and First Southwest Asset Management, Inc. JP Morgan Chase Bank and/or its subsidiary JP Morgan Investor Services Co. is the custodial bank. The primary objectives of TexSTAR are, in order of priority, preservation and protection of principal, maintenance of sufficient liquidity to meet Participants' needs, diversification to avoid unreasonable or avoidable risks, and yield. MBIA Texas Class Pool is duly chartered by the State of Texas Interlocal Cooperation Act, is administered and managed by MBIA Municipal Investors Service Corporation. Wells Fargo Bank N.A. is the custodial bank. The primary objectives of MBIA Texas Class Pool, is to maintain safety of principal while providing participating government entities (Participants) with the highest possible rate of return for invested funds.

Note 2 - Deposits and Investments (continued)

Investments (continued)

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

	<u>Carrying Value</u>	<u>Weighted Average Maturity (In</u>
Governmental Activities:		
Cash and deposits	\$ 4,493,780	N/A
Certificates of deposit	2,400,000	178
Investments		
Local Government Investment Pools:		
Lone Star	8,400,854	22
MBIA Texas Class	2,875,197	56
Texpool	65,761	32
TexStar	148,472	32
	<u>11,490,284</u>	31
Money Market		
TD Ameritrade	10,547	112
Securities		
Federal Home Loan Bank	1,035,245	42
Municipal Bonds	423,753	248
	<u>1,469,545</u>	101
Total Investments	<u>15,359,829</u>	
Total Governmental Activities	<u>19,831,584</u>	
Business-type Activities:		
Cash and deposits	28,862	
Total Business-type Activities	<u>28,862</u>	
Fiduciary Funds:		
Cash and deposits	690,678	
Total Fiduciary Funds	<u>690,678</u>	
Total	<u>\$ 20,551,124</u>	
Investment earnings	\$ 153,308	
Total Investment earnings	<u>\$ 153,308</u>	

Note 2 - Deposits and Investments (continued)

Investments' fair value measurement are as follows at August 31, 2017:

<u>Investments</u>	<u>Fair Value</u>	<u>Fair Value Measurements Using</u>		
		<u>Level 1 Inputs</u>	<u>Level 2 Inputs</u>	<u>Level 3 Inputs</u>
Debt securities:				
Certificates of Deposit	\$ 2,400,000	\$ 2,400,000	\$ -	\$ -
Municipal Bonds	423,753		423,753	
Total debt securities	<u>\$ 2,823,753</u>	<u>\$ 2,400,000</u>	<u>\$ 423,753</u>	<u>\$ -</u>

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates may adversely affect the value of the investments. The District monitors interest rate risk utilizing weighted average maturity analysis. In accordance with its investment policy, the District reduces its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio as a whole to no more than 360 days. In addition, the District shall not directly invest in an individual security maturing more than twelve months from the date of purchase.

Credit Risk

State law and the District's investment policy limits investments in all categories to top ratings issued by nationally recognized statistical rating organizations. As of August 31, 2017, the District's investments were rated as follows:

<u>Investment</u>	<u>Rating</u>	<u>Rating Agency</u>
Lone Star	AAAm	Standard and Poor's
MBIA Texas Class	AAAm	Standard and Poor's
Texpool	AAAm	Standard and Poor's
TexStar	AAAm	Standard and Poor's
Federal Home Loan Bank	AA+	Standard and Poor's
Municipal Bonds	AAA	Standard and Poor's

Concentration of Credit Risk

The District's investment policy requires the investment portfolio to be diversified in terms of investment instruments, maturity scheduling, and financial institutions in order to reduce the risk of loss resulting from over-concentration of assets in a specific class of investments, specific maturity, or specific issuer. Investments with concentrations of over five percent of the total portfolio at August 31, 2017 consisted of the following:

<u>Investment Type</u>	<u>Carrying Value</u>	<u>Percentage of Portfolio</u>
Lone Star	\$ 8,400,854	54.69%
MBIA Texas Class	2,875,197	18.72%

Note 2 - Deposits and Investments (continued)

The District reports its local government investment pools at amortized cost as permitted by GASB Statement No. 79 *Certain External Investment Pools and Pool Participants*. In addition the investment pools do not have any limitations and restrictions on withdrawals such as notice periods or maximum transaction amounts. The four pools do not impose any liquidity fees or redemption gates.

Note 3 - Receivables

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

	General Fund	Debt Service Fund	Total Nonmajor Funds	Proprietary Funds	Total
Property taxes	\$ 551,428	\$ 147,075	\$	\$	\$ 698,503
Due from other governments	742,197		375,478		1,117,675
Other	52,804		128,215	2,509	183,528
Gross receivables	1,346,429	147,075	503,693	2,509	1,999,706
Less allowance for doubtful accounts	(86,174)	(21,535)			(107,709)
Net total receivables	\$ 1,260,255	\$ 125,540	\$ 503,693	\$ 2,509	\$ 1,891,997

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 or in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the District reported unearned revenues for advanced collection of fees in the amount of \$561,313.

Note 4 - Capital Assets

Capital asset activity for the year ended August 31, 2017, was as follows:

	Balance September 1, 2016	Additions	(Retirements) and Transfers	Balance August 31, 2017
Capital assets, not being depreciated				
Land	\$ 2,282,209	\$ 171,570	\$	\$ 2,453,779
Construction in progress		20,559		20,559
Total Capital assets, not being depreciated	2,282,209	192,129		2,474,338
Capital assets, being depreciated				
Buildings and improvements	140,910,984	1,945,822	(8,560)	142,848,246
Furniture and equipment	10,354,501	621,602	(83,895)	10,892,208
Total Capital assets, being depreciated	151,265,485	2,567,424	(92,455)	153,740,454
Less accumulated depreciation for:				
Buildings and improvements	(56,162,000)	(4,870,312)	8,560	(61,023,752)
Furniture and Equipment	(5,900,349)	(745,921)	83,895	(6,562,375)
Total Accumulated depreciation	(62,062,349)	(5,616,233)	92,455	(67,586,127)
Governmental Capital Assets	\$ 91,485,345	\$ (2,856,680)	\$	\$ 88,628,665

Note 4 - Capital Assets (continued)

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

<u>Function</u>	<u>Depreciation Expense</u>
Instruction	\$ 3,122,336
Instructional resources and media services	75,485
Curriculum and staff development	57,629
Instructional leadership	82,157
School leadership	318,756
Guidance, counseling and evaluation services	131,140
Social work services	169
Health services	62,623
Student transportation	197,799
Food Services	307,191
Extracurricular activities	206,852
General administration	264,207
Plant maintenance and operations	610,218
Security and monitoring services	21,439
Data processing services	121,298
Community services	36,934
	<u>\$ 5,616,233</u>

The District had commitments in the amount of \$335,650 at August 31, 2017 that consisted of the following:

<u>Project</u>	<u>Approved Construction Budget</u>	<u>Construction in Progress</u>	<u>Remaining Commitment</u>
HVAC Controls Bales and Windsong	\$ 67,950	\$	\$ 67,950
Admin Office Space Conversion	120,000	1,300	118,700
HVAC controls HS	149,000		149,000
Annex Round Bldg. Lower Girls Dressing Room Roof	392,000	19,259	
	<u>\$ 728,950</u>	<u>\$ 20,559</u>	<u>\$ 335,650</u>

Note 5 - Interfund Receivables, Payables, and Transfers

Interfund balances consist of short-term lending/borrowing arrangements that result primarily from payroll and other regularly occurring charges that are paid by the general fund and then charged back to the appropriate other fund. Additionally, some lending/borrowing may occur between two or more nonmajor governmental funds.

Note 5 - Interfund Receivables, Payables, and Transfers (continued)

The composition of interfund balances as of August 31, 2017, is as follows:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>	<u>Net</u>
Governmental Funds			
General Fund	316,006		\$ 316,006
Nonmajor Governmental Funds		289,696	(289,696)
Total Governmental Funds	<u>316,006</u>	<u>289,696</u>	<u>26,310</u>
Fiduciary Funds			
Agency Fund		26,310	(26,310)
Total Fiduciary Funds		<u>26,310</u>	<u>(26,310)</u>
Total	<u>\$ 316,006</u>	<u>\$ 316,006</u>	<u>\$</u>

Interfund transfers are defined as “flows of assets without equivalent flow of assets in return and without a requirement for repayment.” The following is a summary of the District’s transfers for the fiscal year ended August 31, 2017:

<u>Transfer Out</u>	<u>Transfer In</u>	<u>Amount</u>
Nonmajor Governmental Fund	General Fund	\$ 1,163
General Fund	Nonmajor Governmental Fund	803,464
Nonmajor Enterprise Fund	Nonmajor Governmental Fund	33,487
Total		<u>\$ 838,114</u>

Interfund transfers generally fall into two categories: (1) transfers to cover debt service payments to comply with debt covenants, and (2) transfers to cover operating expenditures/deficits in accordance with District policy or legal requirements.

Note 6 - Compensated Absences and Other Retirement/Sick Leave Benefits

A local retirement program that was in effect for five years prior to the 2005-2006 fiscal year was rescinded during the 2006 fiscal year by the Board of Trustees. The remaining liability under this plan will be retired in accordance with the terms of the original resolution. In that regard, no more than 1.0 percent of budgeted salaries for the subsequent year plus \$100,000 may be used for retirement of the remaining liability.

The District’s sick-leave benefits provide for up to the amount of contract days of local sick leave for full retirement or 100 days of local sick leave for reduced service retirement that may be accrued while employed by the District. The rate of accrual depends on the position and length of work-day.

Note 6 - Compensated Absences and Other Retirement/Sick Leave Benefits (continued)

The following summarizes the District’s liability and the changes for the year:

Balance, September 1, 2016	\$ 881,415
Additions: New entrants and salary increments	167,525
Deductions: Payments to participants	<u>(164,272)</u>
Balance, August 31, 2017	<u>\$ 884,668</u>

Eligible sick pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have met the District’s retirement and State’s retirement eligibility requirements.

Note 7 - Long-Term Liabilities

The District has entered into a continuing disclosure undertaking to provide annual reports and material event notices to the State Information Depository of Texas through the Municipal Advisory Council. This information is required under SEC Rule 15c2-12 to enable investors to analyze the financial condition and operations of Friendswood Independent School District. The District is subject to a legal debt margin in which the net indebtedness shall not exceed 10 percent of all assessed real and personal property in the District. At August 31, 2017, the legal debt limit was \$273,534,348 and the legal debt margin was \$158,497,476.

There are a number of limitations and restrictions contained in the general obligation debt indentures. Management has indicated that the District is in compliance with all significant limitations and restrictions as of August 31, 2017.

General Obligation Bonds

General obligation bonds are direct obligations and pledge the full faith and credit of the District. These are issued as current interest bonds, term bonds, and capital appreciation bonds (CAB) with various amounts of principal maturing each year.

Bonds payable for the year ended August 31, 2017 were as follows:

<u>Issue</u>	<u>Original issuance amount</u>	<u>Interest Rate (%)</u>	<u>Maturity Date</u>	<u>Debt Outstanding</u>
Unlimited Tax Schoolhouse Bonds, Series 2008	96,750,000	4.00% to 5.00%	2/15/2018	435,000
Unlimited Tax Refunding Bonds, Series 2009	10,000,000	2.00% to 3.00%	2/15/2018	1,520,000
Unlimited Tax Refunding Bonds, Series 2012	4,190,000	3.00%	2/15/2022	4,190,000
Unlimited Tax Refunding Bonds, Series 2016	88,965,000	2.00% to 5.00%	2/15/2037	<u>88,120,000</u>
				<u>\$ 94,265,000</u>

Note 7 - Long-Term Liabilities (continued)

Debt service requirements to maturity are as follows:

Year Ending August 31,	Principal	Interest	Totals
2018	\$ 2,755,000	\$ 4,256,850	\$ 7,011,850
2019	3,100,000	3,911,900	7,011,900
2020	3,240,000	3,770,800	7,010,800
2021	3,390,000	3,623,000	7,013,000
2022	3,545,000	3,468,125	7,013,125
2023-2027	20,570,000	14,496,325	35,066,325
2028-2032	25,880,000	9,188,875	35,068,875
2033-2037	31,785,000	3,279,900	35,064,900
	<u>\$ 94,265,000</u>	<u>\$ 45,995,775</u>	<u>\$ 140,260,775</u>

Accreted Interest on Capital Appreciation Bonds

With capital appreciation bonds, the interest is paid upon maturity of the bonds. In order to properly reflect the amounts payable on these bonds, the annual interest is added to the long-term liabilities as accretion of interest on capital appreciation bonds. The interest on these obligations will be paid upon maturity in the fiscal year 2018. The values associated with the bonds are reflected in the table below:

Series	Accreted Value	Principal	Accreted Interest	Maturity Value	Maturity Dates
2012	<u>\$ 332,916</u>	<u>\$ 100,000</u>	<u>\$ 232,917</u>	<u>\$ 335,000</u>	2018

Prior Years' Refunding of Long-Term Debt

In prior years, the District defeased certain general obligation debt by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments on the refunded debt. Accordingly, the trust account assets and the liability for the defeased debt are not included in the District's financial statements. At August 31, 2017, \$95,340,000 of previously refunded debt outstanding was considered defeased. Of this amount, \$95,340,000 is related to the Unlimited Tax Refunding Bonds, Series 2016 and has a call date of February 15, 2018.

Note 7 - Long-Term Liabilities (continued)

Changes in Long-Term Liabilities

The following is a summary of changes in the District's total governmental long-term liabilities for the year ended August 31, 2017:

	<u>Balance</u> <u>August 31, 2016</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>August 31, 2017</u>	<u>Due Within</u> <u>One Year</u>
General obligation bonds	\$ 97,150,000	\$	\$ (2,885,000)	\$ 94,265,000	\$ 2,755,000
Premiums/discounts	13,148,246		(690,286)	12,457,960	
Accreted interest on premium compound interest bonds	228,796	4,121		232,917	232,917
Net pension liability	9,594,406	386,556		9,980,962	
Workers' compensation claims	2,680	97,414	(100,094)		
Accrued compensated absences	881,415	167,525	(164,272)	884,668	155,652
	<u>\$ 121,005,543</u>	<u>\$ 655,616</u>	<u>\$ (3,839,652)</u>	<u>\$ 117,821,507</u>	<u>\$ 3,143,569</u>

Note 8 - Revenues from Local, Intermediate, and Out-of-State Sources

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

	<u>General Fund</u>	<u>Debt Service</u> <u>Fund</u>	<u>Other</u> <u>Governmental</u> <u>Funds</u>	<u>Total</u>
Property Taxes	\$ 31,075,897	\$ 7,060,178	\$	\$ 38,136,075
Investment Income	127,009	19,512	1,506	148,027
Co-curricular student activities	575,248			575,248
Food Sales			2,442,516	2,442,516
Other	1,300,301		1,425,919	2,726,220
	<u>\$ 33,078,455</u>	<u>\$ 7,079,690</u>	<u>\$ 3,869,941</u>	<u>\$ 44,028,086</u>

Note 9 - Operating Leases

Commitments under operating lease (non-capitalized) agreements for facilities and equipment are subject to fiscal funding clauses. As such, the agreements are cancelable and the District is therefore not obligated for minimum future rental payments as of August 31, 2017.

Rental expenditures during the year amounted to \$232,790.

Note 10 - Defined Benefit Retirement Plan

Plan Description

The District participates in a cost-sharing multi-employer defined benefit pension that has a special funding situation. The plan is administered by the Teacher Retirement System of Texas (TRS). TRS's defined benefit pension plan is established and administered in accordance with the Texas Constitution, Article XVI, Section 67 and Texas Government Code, Title 8, Subtitle C. The pension trust fund is a qualified pension trust under Section 401(a) of the Internal Revenue Code. The Texas Legislature establishes benefits and contribution rates within the guidelines of the Texas Constitution. The pension's Board of Trustees does not have the authority to establish or amend benefit terms.

All employees of public, state-supported educational institutions in Texas who are employed for one-half or more of the standard work load and who are not exempted from membership under Texas Government Code, Title 8, Section 822.002 are covered by the system.

Pension Plan Fiduciary Net Position

Detailed information about the Teacher Retirement System's fiduciary net position is available in a separately-issued Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at <http://www.trs.state.tx.us/about/documents/cafr.pdf#CAFR>; by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling (512) 542-6592.

Benefits Provided

TRS provides service and disability retirement, as well as death and survivor benefits, to eligible employees (and their beneficiaries) of public and higher education in Texas. The pension formula is calculated using 2.3 percent (multiplier) times the average of the five highest annual creditable salaries times years of credited service to arrive at the annual standard annuity except for members who are grandfathered, the three highest annual salaries are used. The normal service retirement is at age 65 with 5 years of credited service or when the sum of the member's age and years of credited service equals 80 or more years. Early retirement is at age 55 with 5 years of service credit or earlier than 55 with 30 years of service credit. There are additional provisions for early retirement if the sum of the member's age and years of service credit total at least 80, but the member is less than age 60 or 62 depending on date of employment, or if the member was grandfathered in under a previous rule. There are no automatic post-employment benefit changes; including automatic COLAs. Ad hoc post-employment benefit changes, including ad hoc cost of living adjustments (COLAs) can be granted by the Texas Legislature as noted in the Plan description in (A) above.

Texas Government Code section 821.006 prohibits benefit improvements, if as a result of the particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action.

Note 10 - Defined Benefit Retirement Plan (continued)

Benefits Provided (continued)

Employee contribution rates are set in state statute, Texas Government Code 825.402. Senate Bill 1458 of the 83rd Texas Legislature amended Texas Government Code 825.402 for member contributions and established employee contribution rates for fiscal years 2014 through 2017. The 83rd Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2014 and 2015. The 84th Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2016 and 2017.

	Contribution Rates	
	2016	2017
Member	7.2%	7.7%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%

Contributors to the plan include members, employers and the State of Texas as the only non-employer contributing entity. The State contributes to the plan in accordance with state statutes and the General Appropriations Act (GAA). Contributions and pension expense for all contributors were as follows:

	Measurement Year (2016)	Fiscal Year (2017)
	Contributions Required and Made	TRS Contributions
Employer Contributions	\$ 874,428	\$ 953,601
Member Contributions	2,355,446	2,660,214
NECE On-behalf Contributions	1,827,317	1,828,408

As the non-employer contributing entity for public education and junior colleges, the State of Texas contributes to the retirement system an amount equal to the current employer contribution rate times the aggregate annual compensation of all participating members of the pension trust fund during that fiscal year reduced by the amounts described below which are paid by the employers. Employers (public school, junior college, other entities or the State of Texas as the employer for senior universities and medical schools) are required to pay the employer contribution rate in the following instances:

- On the portion of the member's salary that exceeds the statutory minimum for members entitled to the statutory minimum under Section 21.402 of the Texas Education Code.
- During a new member's first 90 days of employment.
- When any part or all of an employee's salary is paid by federal funding sources, a privately sponsored source, from non-educational and general, or local funds.
- When the employing district is a public junior college or junior college district, the employer shall contribute to the retirement system an amount equal to 50% of the state contribution rate for certain instructional or administrative employees; and 100% of the state contribution rate for all other employees.

Note 10 - Defined Benefit Retirement Plan (continued)

Benefits Provided (continued)

In addition to the employer contributions listed above, there are two additional surcharges an employer is subject to.

- When employing a retiree of the Teacher Retirement System the employer shall pay both the member contribution and the state contribution as an employment after retirement surcharge.
- When a school district or charter school does not contribute to the Federal Old-Age, Survivors and Disability Insurance (OASDI) Program for certain employees, they must contribute 1.5% of the state contribution rate for certain instructional or administrative employees; and 100% of the state contribution rate for all other employees.

Actuarial Assumptions

The total pension liability in the August 31, 2016 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	August 31, 2016
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Discount Rate	8.00%
Long-term expected Investment Rate of Return	8.00%
Inflation	2.5%
Salary Increases	3.5% to 9.5%
Payroll Growth Rate	2.5%
Benefit Changes during the year	None
Ad hoc post-employment benefit changes	None

The actuarial methods and assumptions are based primarily on a study of actual experience for the four year period ending August 31, 2014 and adopted on September 24, 2015.

Discount Rate

The discount rate used to measure the total pension liability was 8.0%. There was no change in the discount rate since the previous year. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term rate of return on pension plan investments is 8%. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Note 10 - Defined Benefit Retirement Plan (continued)

Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2016 are summarized below:

Asset Class	Target Allocation	Real Return Geometric Basis	Long Term Expected Portfolio Real Rate of Return*
Global Equity			
U.S.	18%	4.6%	1.0%
Non-U.S. Developed	13%	5.1%	0.8%
Emerging Markets	9%	5.9%	0.7%
Directional Hedge Funds	4%	3.2%	0.1%
Private Equity	13%	7.0%	1.1%
Stable Value			
U.S. Treasuries	11%	0.7%	0.1%
Absolute Return	0%	1.8%	0.0%
Stable Value Hedge Funds	4%	3.0%	0.1%
Cash	1%	-0.2%	0.0%
Real Return			
Global Inflation Linked Bonds	3%	0.9%	0.0%
Real Assets	16%	5.1%	1.1%
Energy and Natural Resources	3%	6.6%	0.2%
Commodities	0%	1.2%	0.0%
Risk Parity			
Risk Parity	5%	6.7%	0.3%
Inflation Expectation			2.2%
Alpha			1.0%
Total	100%		8.7%

* *The Expected Contributions to Returns incorporates the volatility drag resulting from the conversion between Arithmetic and Geometric mean returns.*

Discount Rate Sensitivity Analysis

The following schedule shows the impact of the Net Pension Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (8%) in measuring the 2016 Net Pension Liability.

	1% Decrease 7%	Current Discount Rate 8%	1% Increase 9%
District's proportional share of the net pension liability	\$ 15,447,168	\$ 9,980,962	\$ 5,344,515

Note 10 - Defined Benefit Retirement Plan (continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At August 31, 2017, the District reported a liability of \$9,980,962 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

District Proportion of the Net Pension Liability	0.0264%
District Proportionate Share of Net Pension Liability	\$ 9,980,962
State's Proportionate Share that is associated with the District	<u>21,689,972</u>
	<u>\$ 31,670,934</u>

The net pension liability was measured as of August 31, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The employer's proportion of the net pension liability was based on the employer's contributions to the pension plan relative to the contributions of all employers to the plan for the period September 1, 2015 through August 31, 2016.

At August 31, 2016 the employer's proportion of the collective net pension liability was 0.0264% which was a decrease from its proportion measured as of August 31, 2015 of 0.027%.

Changes since the Prior Actuarial Valuation

There were no changes to the actuarial assumptions or other inputs that affected measurement of the total pension liability since the prior measurement period.

There were no changes of benefit terms that affected measurement of the total pension liability during the measurement period.

For the fiscal year ended August 31, 2017, the District recognized pension expense of \$2,250,902 as well as revenue of \$1,827,317 representing pension expense incurred by the State on behalf of the District.

At August 31, 2017, the District reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in proportional share of contributions	\$ 2,402,312	\$ (722)
Changes of assumptions	304,202	(276,659)
Differences between expected and actual experience	156,500	(298,026)
Difference between projected and current investment earnings	1,923,345	(1,078,178)
District contributions subsequent to the measurement date	953,601	
Total	<u>\$ 5,739,960</u>	<u>\$ (1,653,585)</u>

Note 10 - Defined Benefit Retirement Plan (continued)

The \$953,601 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended August 31, 2018. The net amounts of the employer’s balances of deferred outflows and inflows of resources related to pensions will be recognized as pension expense as follows:

Year ended	
August 31:	Amount
2018	\$ (561,253)
2019	(561,253)
2020	(1,100,342)
2021	(519,831)
2022	(348,681)
Thereafter	(41,414)
	<u>\$ (3,132,774)</u>

Note 11 - Retiree Health Plan

Plan Description

The Friendswood Independent School District contributes to the Texas Public School Retired Employees Group Insurance Program (TRS-Care), a cost-sharing multiple-employer defined benefit postemployment health care plan administered by the Teacher Retirement System of Texas. TRS-Care provides health care coverage for certain persons (and their dependents) who retired under the Teacher Retirement System of Texas. The statutory authority for the program is Texas Insurance Code, Chapter 1575. Section 1575.052 grants the TRS Board of Trustees the authority to establish and amend basic and optional group insurance coverage for participants. The 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 under the TRS Publications heading, by writing to the Communications Department of the Teacher Retirement System of Texas at 1000 Red River Street, Austin, Texas 78701, or by calling the TRS Communications Department at 1-800-223-8778.

Funding Policy. Contribution requirements are not actuarially determined but are legally established each biennium by the Texas legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. The State of Texas contribution rate was 1.00% of public school payroll for the period September 2013 through August 2016. Active public school employee contribution rates were 0.65% of public school payroll, with school districts contributing a percentage of payroll set at 0.55% for fiscal years 2017, 2016, and 2015. 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 staff members funded by federal programs, the federal programs are required to contribute 1.00%. The District contributed 100% of the annual required contribution for fiscal year 2017, 2016, and 2015.

Note 11 - Retiree Health Plan (continued)

Contributions made by the State, District, and staff members for the years ended August 31, 2017, 2016, and 2015 are as follows:

<u>For the Year Ended August 31</u>	<u>State TRS Care Contributions Made on Behalf of the District</u>	<u>District Required Contributions to TRS Care</u>	<u>Staff Members' Contributions to TRS Care</u>	<u>Covered Payroll</u>
2017	\$ 336,327	\$ 203,471	\$ 222,306	\$ 34,640,606
2016	318,690	189,837	213,256	32,808,365
2015	301,987	180,711	202,419	31,141,812

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

The Medicare Prescription Drug Improvement and Modernization Act of 2003 established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. Under Medicare Part D, TRS-Care receives retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. For the years ended August 31, 2017, 2016, and 2015, the subsidy payments received by the TRS-Care on-behalf of the district were \$159,294, \$126,000, and \$125,545 respectively. The payments are recorded as equal revenues and expenditures in the governmental funds financial statements of the District.

Note 12 - Risk Management

Property/Liability

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

Health Insurance

The District provides medical insurance coverage for its employees under the TRS-ActiveCare insurance provided by the Teachers' Retirement System of Texas.

Workers' Compensation

The District established a limited risk management program for workers' compensation in 1988 by participating as a self-funded member of the TASB Risk Management Fund (the Fund). The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code and Chapter 504, Texas Labor Code. As a self-funded member of the Fund, Friendswood ISD was solely responsible for all claims costs, both reported and unreported. The Fund provided administrative service to its self-funded members including claims administration and customer service. The District discontinued participation in the self-funded workers' compensation plan August 31, 2015.

Note 12 - Risk Management (continued)

While participating in the plan, premiums were paid from reserves in the internal service fund. The reserves were available to pay claims, claim reserves, and administrative costs of the program. These interfund premiums were used to reduce the amount of claims expenditures reported in the general fund.

Liabilities of the fund were reported when it was probable that a loss has occurred and the amount of the loss could be reasonably estimated. Liabilities also included an estimated amount for claims that had been incurred but not reported (IBNRs). The result of the process to estimate the claims liability was not an exact amount as it depended on many complex factors, such as inflation, changes in legal doctrines, and damage awards.

Accordingly, claims were reevaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amount of pay-outs), and other economic and social factors. The estimate of the claims liability also included amounts for incremental claim adjustment expenses related to specific claims and other claim adjustment expenses regardless of whether allocated to specific claims. Estimated recoveries, for example from stop-loss or subrogation, were another component of the claims liability estimate. An excess coverage insurance policy covered individual claims in excess of \$350,000 and annual losses exceeding \$1,000,000. Settlements did not exceed coverage's for each of the past three fiscal years.

Changes in the balances of claims liabilities during the past two years are as follows:

<u>Fiscal Year</u>	<u>Beginning of Year Accrual</u>	<u>Change in Current Year Estimates</u>	<u>Claims Payments</u>	<u>End of Year Accrual</u>	<u>Current</u>
2017	\$ 2,680	\$ 97,414	\$ (100,094)	\$	\$
2016	184,724	107,145	(289,189)	2,680	2,680

Beginning September 1, 2015, the District contracted with TASB Risk Management Fund for a fully funded workers' compensation program. TASB pays 100% of all employees' medical claims and assumes all risk related to them.

Note 13 - Shared Service Arrangements / Joint Ventures

The District participates in four separate Shared Service Arrangements that are described in more detail below.

The District participates in a Shared Service Arrangement (SSA) for Juvenile Justice Alternative Education Program with eight other school districts. Although 16.2 percent of the activity of the SSA is attributable to the District's participation, the District does not account for revenues or expenditures in this program and does not disclose them in these financial statements. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, Dickinson ISD, nor does the District have a net equity interest in the fiscal agent. The fiscal agent is neither accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to Friendswood ISD. The fiscal agent manager is responsible for all financial activities of the SSA.

Note 13 - Shared Service Arrangements / Joint Ventures (continued)

Presented below are the revenues and expenditures attributable to the District's participation.

Revenues:	
Local revenue	<u>\$ 27,348</u>
Expenditures:	
Payroll costs	\$ 23,519
Contract services	3,282
Supplies and materials	<u>547</u>
Total expenditures	<u>\$ 27,348</u>

The District participates in a Shared Service Arrangement (SSA) for the Galveston-Brazoria Co-op for the Hearing Impaired that provides a system of direct and support services to eligible hearing impaired students of the member districts. In addition to Friendswood ISD, the other member districts include Alvin ISD, Clear Creek ISD, Dickinson ISD, Galveston ISD, Hitchcock ISD, La Marque ISD, Pearland ISD, Santa Fe ISD and Texas City ISD. All services are provided by the fiscal agent, Clear Creek ISD. The member districts provide the funds to the fiscal agent. Although approximately 3.7 percent of the total SSA expenditures are attributable to the District's participation, the District does not account for revenues or expenditures in this program and does not disclose them in these financial statements. In addition, the District neither has a joint ownership interest in fixed assets purchased by the fiscal agent nor does the District have a net equity interest in the fiscal agent.

Revenues:	
Local revenue	<u>\$ 74,455</u>
Expenditures:	
Payroll costs	\$ 52,863
Contract services	14,891
Supplies and materials	5,212
Other operating costs	<u>1,771</u>
Total expenditures	<u>\$ 74,455</u>

The District participates in the Visually Impaired Orientation and Mobility Shared Service Arrangement (SSA), which provides services for visually impaired students. Friendswood ISD participates in this SSA along with Dickinson ISD, Galveston ISD, Hitchcock ISD and Texas City ISD. Although approximately 35 percent of the activity of the SSA is attributable to the District's participation, the District does not account for the revenues or expenditures in this program and does not disclose them in these financial statements. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, Galveston ISD, nor does the District have a net equity interest in the fiscal agent. The fiscal agent is neither accumulating significant financial resources nor fiscal exigencies that would rise to a future additional benefit or burden to Friendswood ISD. The fiscal agent is responsible for all financial activities of the SSA. Revenues attributable to the District's participation were \$11,548 for the 2017 fiscal year. Expenditures in the same amount were attributable to payroll costs.

Note 14 - Contingent Liabilities

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

Note 15 - Arbitrage

In accordance with the provisions of Section 148(f) of the Internal Revenue Code of 1986, as amended, bonds must satisfy certain arbitrage rebate requirements. Positive arbitrage is the excess of (1) the amount earned on investments purchased with bond proceeds over (2) the amount that such investments would have earned had such investments been invested at a rate equal to the yield on the bond issue. In order to comply with the arbitrage rebate requirements, positive arbitrage must be paid to the U.S. Treasury at the end of each five year anniversary date of the bond issue. The District has estimated that it does not have an arbitrage liability as of August 31, 2017.

Note 16 - Other Post-Employment Benefits

The District does not provide post-employment healthcare benefits except those mandated by the Consolidated Omnibus Budget Reconciliation Act (COBRA). The requirements established by COBRA are fully funded by employees who elect coverage under the Act, and no direct costs are incurred by the District.

Note 17 - Subsequent Event

Hurricane Harvey

On August 25, 2017, Hurricane Harvey, characterized as a Category 4 hurricane at its peak, made landfall in the Texas coast before stalling over the Houston-Galveston area and producing significant flooding. As a result of District officials cancelled classes beginning on August 25 through September 5, 2017.

The Texas Education Agency has notified districts in the disaster declared areas that they are eligible to apply for missed school day waivers for the time period that the District cancelled classes.

While the District experienced minor damage to some facilities, such damage will not have a substantial negative effect on the operation of the facilities.

On August 25, 2017, the President of the United States issued a major disaster declaration. The major disaster declaration made federal assistance available for debris removal and emergency protective measures, including direct federal assistance, under the Public Assistance program. The District expects to utilize the District's general fund balance to initially cover Hurricane Harvey related expenses and to seek reimbursement from the Federal Emergency Management Agency for eligible disaster-related expenses.

(This page intentionally left blank.)

REQUIRED SUPPLEMENTARY INFORMATION

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT

Exhibit G-1

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

For the Year Ended August 31, 2017

Data Control Codes		Budgeted Amounts		Actual Amounts, Budgetary Basis	Variance with Final Budget - Positive (Negative)
		Original	Final		
	Revenues				
5700	Local revenues	\$ 31,405,320	\$ 31,433,929	\$ 33,078,455	\$ 1,644,526
5800	State program revenues	16,544,680	16,544,680	16,875,941	331,261
5020	Total Revenues	<u>47,950,000</u>	<u>47,978,609</u>	<u>49,954,396</u>	<u>1,975,787</u>
	Expenditures				
	Current:				
0011	Instruction	27,244,710	28,076,818	27,971,314	105,504
0012	Instruction resources and media services	713,341	757,889	676,344	81,545
0013	development	234,774	523,698	516,209	7,489
0021	Instructional leadership	1,062,207	741,116	735,916	5,200
0023	School leadership	2,731,334	2,866,272	2,855,248	11,024
0031	Guidance, counseling and evaluation services	895,882	1,185,356	1,174,682	10,674
0032	Social work services	8,136	3,900	1,500	2,400
0033	Health services	538,301	572,391	560,947	11,444
0034	Student transportation	1,855,078	1,926,937	1,774,152	152,785
0036	Extracurricular activities	1,800,094	1,915,696	1,853,173	62,523
0041	General administration	2,354,325	2,426,649	2,377,896	48,753
0051	Facilities maintenance and operations	5,745,476	5,645,298	5,466,233	179,065
0052	Security and monitoring services	195,945	215,557	192,053	23,504
0053	Data processing services	1,105,122	1,123,554	1,086,522	37,032
0061	Community services	263,725	336,100	330,836	5,264
	Capital outlay:				
0081	Facilities, acquisition and construction	740,000	1,234,168	1,162,186	71,982
	Intergovernmental:				
0093	Payments related to shared services arrangements	109,000	114,000	99,200	14,800
0095	Payments to Juvenile Justice Alternative Education Programs	51,800	32,447	27,348	5,099
0099	Other intergovernmental charges	300,750	295,750	290,336	5,414
6030	Total Expenditures	<u>47,950,000</u>	<u>49,993,596</u>	<u>49,152,095</u>	<u>841,501</u>
1100	Excess (deficiency) of revenues over expenditures		(2,014,987)	802,301	2,817,288
	Other Financing Sources (Uses)				
7915	Transfers in			1,163	1,163
8911	Transfers out			(803,464)	(803,464)
7080	Total other financing sources and uses			<u>(802,301)</u>	<u>(802,301)</u>
1200	Net change in fund balances		(2,014,987)		2,014,987
0100	Fund balances - beginning	<u>12,553,964</u>	<u>12,553,964</u>	<u>12,553,964</u>	
3000	Fund balances - ending	<u>\$ 12,553,964</u>	<u>\$ 10,538,977</u>	<u>\$ 12,553,964</u>	<u>\$ 2,014,987</u>

A. Budgets and Budgetary Accounting

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

Expenditures may not legally exceed budgeted appropriations at the function or activity level. Expenditure requests which would require an increase in total budgeted appropriations must be approved by the Trustees through formal budget amendment. State law prohibits trustees from making budget appropriations in excess of funds available and estimated revenues. State law also prohibits amendment of the budget after fiscal year end. Supplemental appropriations were made to the General Fund, Food Service Fund and Debt Service Fund during the fiscal year ended August 31, 2017.

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

The official school budget was prepared for adoption for budgeted governmental fund types by August 31, 2016. The budget was formally adopted by the Board of Trustees at a duly advertised public meeting prior to the expenditure of funds. The final amended budget is filed with the Texas Education Agency (TEA) through inclusion in the annual financial and compliance report.

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

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
TEACHER RETIREMENT SYSTEM OF TEXAS
LAST THREE MEASUREMENT YEARS

Exhibit G-3

	2016	2015	2014
District's proportionate share of the net pension liability	\$ 9,980,962	\$ 9,594,406	\$ 4,150,735
State's proportionate share of the net pension liability associated with the District	21,689,972	20,961,599	17,620,461
Total	<u>\$ 31,670,934</u>	<u>\$ 30,556,005</u>	<u>\$ 21,771,196</u>
District's covered-employee payroll (for Measurement Year)	\$ 32,808,364	\$ 31,141,812	\$ 29,900,254
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	30.4%	30.8%	13.9%
Plan fiduciary net position as a percentage of the total pension liability *	78.00%	78.43%	83.25%
Plan's net pension liability as a percentage of covered-employee payroll *	92.75%	91.94%	72.89%

The amounts presented for each Plan year which ends the preceding August 31 of the District's fiscal year.

Net pension liability is calculated using an new methodology and will be presented prospectively in accordance with GASB 68.

* Per Teacher Retirement System of Texas' comprehensive annual financial report.

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS
TEACHER RETIREMENT SYSTEM OF TEXAS
LAST FOUR FISCAL YEARS

Exhibit G-4

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contributions	\$ 953,601	\$ 874,428	\$ 790,748	\$ 393,963
Contributions in relation to the contractual required contributions	953,601	874,428	790,748	393,963
contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered employee payroll	\$ 34,640,606	\$ 32,808,365	\$ 31,141,812	\$ 29,900,254
Contributions as a percentage of covered employee payroll	2.75%	2.67%	2.54%	1.32%

The District implemented GASB 68 and 71 during fiscal year 2015.

Effective September 1, 2014, employers who did not contribute Social Security for TRS-eligible employees were required to contribute an additional 1.5% of TRS-eligible compensation which nearly doubled the District's contributions into the Plan. Because the District's proportional share of the plan is determined by its proportional share of contributions, the District recognized a corresponding increase in its share of net pension liability.

Changes of Assumptions

There were no changes to the actuarial assumptions or other inputs that affected measurement of the total pension liability since the prior measurement period.

Changes of Benefit Terms

There were no changes of benefit terms that affected measurement of the total pension liability during the measurement period.

OTHER SUPPLEMENTARY INFORMATION

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT

COMBINING BALANCE SHEET

ALL NONMAJOR GOVERNMENTAL FUNDS

August 31, 2017

Data Control Codes	211	224	225
Assets	ESEA Title I, Part A	IDEA-B Formula	IDEA-B Preschool
1110 Cash and temporary investments	\$	\$	\$
Receivables:			
1240 Receivables from other governments	32,421	232,002	2,940
1290 Other receivables			
1410 Prepaid items			
1000 Total Assets	<u>\$ 32,421</u>	<u>\$ 232,002</u>	<u>\$ 2,940</u>
Liabilities and Fund Balances			
Liabilities:			
Current Liabilities:			
2110 Accounts payable	\$	\$	\$
2160 Accrued wages payable			
2170 Due to other funds	32,421	232,002	2,940
2300 Unearned revenues			
2000 Total Liabilities	<u>32,421</u>	<u>232,002</u>	<u>2,940</u>
Fund Balances:			
Nonspendable:			
3430 Prepaid items			
Restricted:			
3450 Grant restrictions			
3490 Other purposes			
Committed:			
3545 Other purposes			
Assigned:			
3570 Capital expenditures for equipment			
3000 Total Fund Balances	<u></u>	<u></u>	<u></u>
4000 Total Liabilities and Fund Balances	<u>\$ 32,421</u>	<u>\$ 232,002</u>	<u>\$ 2,940</u>

Exhibit H-1
Page 1 of 2

240	244	255	263
<u>Child Nutrition</u>	<u>Vocational Ed -Basic</u>	<u>Title II, Part A</u>	<u>Title III</u>
\$ 503,249	\$	\$	\$
		8,374	3,044
125,773		3,670	
<u>\$ 629,022</u>	<u>\$</u>	<u>\$ 12,044</u>	<u>\$ 3,044</u>
\$ 70,530	\$	\$ 175	\$
9,715		304	
		11,565	3,044
<u>80,245</u>	<u></u>	<u>12,044</u>	<u>3,044</u>
548,777			
<u>548,777</u>	<u></u>	<u></u>	<u></u>
<u>\$ 629,022</u>	<u>\$</u>	<u>\$ 12,044</u>	<u>\$ 3,044</u>

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT

COMBINING BALANCE SHEET

ALL NONMAJOR GOVERNMENTAL FUNDS

August 31, 2017

<u>Data Control Codes</u>	289	397	410
	Miscellaneous Federal Programs	Advanced Placement Incentive	Instructional Materials Allotment
Assets			
1110	Cash and temporary investments	\$	\$ 4,293
Receivables:			
1240	Receivables from other governments		95,471
1290	Other receivables		
1410	Prepaid items		
1000	Total Assets	<u>\$</u>	<u>\$ 95,471</u>
Liabilities and Fund Balances			
Liabilities:			
Current Liabilities:			
2110	Accounts payable	\$	\$ 88,951
2160	Accrued wages payable		
2170	Due to other funds		6,520
2300	Unearned revenues		
2000	Total Liabilities	<u>\$</u>	<u>\$ 95,471</u>
Fund Balances:			
Nonspendable:			
3430	Prepaid items		
Restricted:			
3450	Grant restrictions	4,293	
3490	Other purposes		
Committed:			
3545	Other purposes		
Assigned:			
3570	Capital expenditures for equipment		
3000	Total Fund Balances	<u>4,293</u>	
4000	Total Liabilities and Fund Balances	<u>\$ 4,293</u>	<u>\$ 95,471</u>

429	461	480	699	
<u>State Funded Special Revenue Fund</u>	<u>Campus Activity</u>	<u>Education Foundation Grants</u>	<u>Capital Projects Fund</u>	<u>Total Nonmajor Governmental Funds</u>
\$	\$ 990,735	\$ 20,810	\$ 1,299,266	\$ 2,818,353
1,226				375,478
	42	2,400		128,215
	4,690			8,360
<u>\$ 1,226</u>	<u>\$ 995,467</u>	<u>\$ 23,210</u>	<u>\$ 1,299,266</u>	<u>\$ 3,330,406</u>
\$ 22	\$ 28,331	\$ 2,225	\$ 135,242	\$ 325,476
				10,019
1,204				289,696
	14,838			14,838
<u>1,226</u>	<u>43,169</u>	<u>2,225</u>	<u>135,242</u>	<u>640,029</u>
	4,690			4,690
				553,070
		20,985		20,985
	947,608			947,608
			1,164,024	1,164,024
	952,298	20,985	1,164,024	2,690,377
<u>\$ 1,226</u>	<u>\$ 995,467</u>	<u>\$ 23,210</u>	<u>\$ 1,299,266</u>	<u>\$ 3,330,406</u>

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - ALL NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended August 31, 2017

	211	224	225
Data Control Codes	ESEA Title I, Part A	IDEA-B Formula	IDEA-B Preschool
Revenues			
5700	\$	\$	\$
5800			
5900	129,709	925,337	17,069
5020	Total Revenues	Total Revenues	Total Revenues
	<u>129,709</u>	<u>925,337</u>	<u>17,069</u>
Expenditures			
Current:			
0011	129,709	925,337	17,069
0012			
0013			
0021			
0023			
0031			
0032			
0033			
0034			
0035			
0036			
0051			
0052			
0053			
Capital outlay:			
0081			
6030	Total Expenditures	Total Expenditures	Total Expenditures
1100	<u>129,709</u>	<u>925,337</u>	<u>17,069</u>
1100			
Other Financing Sources (Uses)			
7915			
8911			
7080	Total other financing sources and uses	Total other financing sources and uses	Total other financing sources and uses
1200			
1200			
0100	Fund balance - September 1 (beginning)	Fund balance - September 1 (beginning)	Fund balance - September 1 (beginning)
3000	Fund balance - August 31 (ending)	Fund balance - August 31 (ending)	Fund balance - August 31 (ending)
	<u>\$</u>	<u>\$</u>	<u>\$</u>

240	244	255	263
<u>Child Nutrition</u>	<u>Vocational Ed - Basic</u>	<u>Title II, Part A</u>	<u>Title III</u>
\$ 2,443,873	\$	\$	\$
4,195			
210,764	35,352	67,314	12,475
<u>2,658,832</u>	<u>35,352</u>	<u>67,314</u>	<u>12,475</u>
	35,352	1,188	12,475
		48,854	
		1,810	
		15,462	
2,751,663			
<u>2,751,663</u>	<u>35,352</u>	<u>67,314</u>	<u>12,475</u>
(92,831)			
3,762			
<u>3,762</u>			
(89,069)			
<u>637,846</u>			
<u>\$ 548,777</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - ALL NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended August 31, 2017

<u>Data Control Codes</u>	289	397	410
	<u>Miscellaneous Federal Programs</u>	<u>Advanced Placement Incentive</u>	<u>Instructional Materials Allotment</u>
Revenues			
5700	\$	\$	\$
5800		4,050	500,990
5900	1,165		
5020	<u>1,165</u>	<u>4,050</u>	<u>500,990</u>
Expenditures			
Current:			
0011	1,165		465,257
0012			
0013			33,919
0021			1,814
0023			
0031			
0032			
0033			
0034			
0035			
0036			
0051			
0052			
0053			
Capital outlay:			
0081			
6030	<u>1,165</u>		<u>500,990</u>
1100		4,050	
Other Financing Sources (Uses)			
7915			
8911			
7080			
1200		4,050	
0100		<u>243</u>	
3000	<u>\$</u>	<u>\$ 4,293</u>	<u>\$</u>

429	461	480	699	
<u>State Funded Special Revenue Fund</u>	<u>Campus Activity</u>	<u>Education Foundation Grants</u>	<u>Capital Projects Fund</u>	<u>Total Nonmajor Governmental Funds</u>
\$ 9,249	\$ 1,267,326	\$ 158,593	\$ 149	\$ 3,869,941
				518,484
				1,399,185
<u>9,249</u>	<u>1,267,326</u>	<u>158,593</u>	<u>149</u>	<u>5,787,610</u>
8,496	562,055	127,970		2,286,073
	51,846	5,604		57,450
360	8,829	1,485		93,447
393	1,958			5,975
	40,499			55,961
	26,464			26,464
	1,500			1,500
	146			146
			99,582	99,582
				2,751,663
	467,402	14,832		482,234
	29,959			29,959
	2,099			2,099
			68,472	68,472
			632,084	632,084
<u>9,249</u>	<u>1,192,757</u>	<u>149,891</u>	<u>800,138</u>	<u>6,593,109</u>
	<u>74,569</u>	<u>8,702</u>	<u>(799,989)</u>	<u>(805,499)</u>
	29,725		803,464	836,951
		(1,163)		(1,163)
	<u>29,725</u>	<u>(1,163)</u>	<u>803,464</u>	<u>835,788</u>
	104,294	7,539	3,475	30,289
	848,004	13,446	1,160,549	2,660,088
<u>\$</u>	<u>\$ 952,298</u>	<u>\$ 20,985</u>	<u>\$ 1,164,024</u>	<u>\$ 2,690,377</u>

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF NET POSITION
NONMAJOR ENTERPRISE FUNDS
August 31, 2017

Exhibit H-3

Data Control Codes		Enterprise Funds		
		Fuel Fund	Vending Fund	Total
	Assets			
1110	Cash and cash equivalents	\$ 24,611	\$ 4,251	\$ 28,862
1290	Other receivables	2,509		2,509
1000	Total Assets	<u>27,120</u>	<u>4,251</u>	<u>31,371</u>
	Liabilities and Net Position			
	Liabilities			
2110	Accounts payable		2,243	2,243
2000	Total Liabilities		<u>2,243</u>	<u>2,243</u>
	Net Position			
3200	Net investments in capital assets			
3800	Restricted net position			
3900	Unrestricted net position	27,120	2,008	29,128
3000	Total Net Position	<u>\$ 27,120</u>	<u>\$ 2,008</u>	<u>\$ 29,128</u>

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION
NONMAJOR ENTERPRISE FUNDS
For the Year Ended August 31, 2017

Exhibit H-4

Data Control Codes	Fuel Fund	Vending Fund	Total
Revenues			
5700 Charges for Services	\$ 6,638	\$ 95,443	\$ 102,081
5020 Total Operating Revenues	<u>6,638</u>	<u>95,443</u>	<u>102,081</u>
Operating Expenses			
6200 Purchased and contracted services		56,055	56,055
6400 Claims expense and other operating expenses		<u>5,901</u>	<u>5,901</u>
6030 Total Operating Expenses		<u>61,956</u>	<u>61,956</u>
Income (Loss) before Transfers	6,638	33,487	40,125
Transfers			
8911 Transfers out		<u>(33,487)</u>	<u>(33,487)</u>
7080 Total Transfers		<u>(33,487)</u>	<u>(33,487)</u>
1200 Change in Net Position	6,638		6,638
Net Position			
0100 Total net position - beginning	<u>20,482</u>	<u>2,008</u>	<u>22,490</u>
3300 Total net position - ending	<u>\$ 27,120</u>	<u>\$ 2,008</u>	<u>\$ 29,128</u>

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT

Exhibit H-5

COMBINING STATEMENT OF CASH FLOWS

NONMAJOR ENTERPRISE FUNDS

Year Ended August 31, 2017

	<u>Fuel Fund</u>	<u>Vending Fund</u>	<u>Total</u>
Increase (Decrease) in Cash and Cash Equivalents			
Cash Flows from Operating Activities:			
Cash received from user charges	\$ 5,334	\$ 96,377	\$ 101,711
Cash payments to suppliers for goods and services		(61,956)	(61,956)
Net Cash Provided by (Used for) Operating Activities	<u>5,334</u>	<u>34,421</u>	<u>39,755</u>
Cash Flows from Non-Capital Financing Activities:			
Advances to other funds		(33,487)	(33,487)
Net Cash Provided by (Used for) Non-Capital Financing Activities		<u>(33,487)</u>	<u>(33,487)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	5,334	934	6,268
Cash and Cash Equivalents at Beginning of Year	<u>19,277</u>	<u>3,317</u>	<u>22,594</u>
Cash and Cash Equivalents at End of Year	<u>\$ 24,611</u>	<u>\$ 4,251</u>	<u>\$ 28,862</u>
Reconciliation to Balance Sheet			
Cash and Cash Equivalents Per Cash Flow	\$ 24,611	\$ 4,251	\$ 28,862
Cash and Cash Equivalents per Balance Sheet	<u>\$ 24,611</u>	<u>\$ 4,251</u>	<u>\$ 28,862</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:			
Operating Income (Loss)	\$ 6,638	\$ 33,487	\$ 40,125
Change in Assets and Liabilities			
Decrease (increase) in Receivables	(1,304)		(1,304)
Increase (decrease) in Accounts Payable		934	934
Net Cash Provided by (Used for) Operating Activities	<u>\$ 5,334</u>	<u>\$ 34,421</u>	<u>\$ 39,755</u>

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF FIDUCIARY NET POSITION
August 31, 2017

Exhibit H-6

Data Control Codes		891	892	893	
		Cline Scholarship Fund	Winston Scholarship Fund	Willard Scholarship Fund	Total Private Purpose Trust Funds
	Assets				
1110	Cash and cash equivalents	\$ 1,732	\$ 6,296	\$ 6,193	\$ 14,221
	Total Assets	<u>1,732</u>	<u>6,296</u>	<u>6,193</u>	<u>14,221</u>
	Liabilities				
2110	Accounts payable			1,000	1,000
2000	Total Liabilities			<u>1,000</u>	<u>1,000</u>
	Net Position				
3800	Restricted	<u>\$ 1,732</u>	<u>\$ 6,296</u>	<u>\$ 5,193</u>	<u>\$ 13,221</u>

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
For the Year Ended August 31, 2017

Exhibit H-7

	891	892	893	
	<u>Cline Scholarship</u>	<u>Winston Scholarship</u>	<u>Willard Scholarship</u>	<u>Total</u>
Additions				
Gifts and contributions	\$	\$	\$	\$
Total additions				
Deductions				
Non-operating expenses			1,000	1,000
Total deductions			1,000	1,000
Change in net position			(1,000)	(1,000)
Net position beginning of year	1,732	6,296	6,193	14,221
Net position end of year	<u>\$ 1,732</u>	<u>\$ 6,296</u>	<u>\$ 5,193</u>	<u>\$ 13,221</u>

REQUIRED TEA SCHEDULES

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF DELINQUENT TAXES RECEIVABLE

For the Year Ended August 31, 2017

<u>Last Ten Fiscal Years</u>	<u>Tax Rates</u>		<u>Net Assessed/Appraised Value For School Tax Purposes</u>	<u>10 Beginning Balance 8/31/16</u>
	<u>Maintenance</u>	<u>Debt Service</u>		
2008 and prior	Various	Various	Various	\$ 21,290
2009	1.040000	0.327000	1,974,337,088	9,338
2010	1.040000	0.327000	2,024,853,767	11,101
2011	1.040000	0.327000	2,052,922,970	16,405
2012	1.040000	0.327000	2,096,108,705	20,134
2013	1.040000	0.327000	2,154,126,189	32,075
2014	1.040000	0.327000	2,224,978,200	50,943
2015	1.040000	0.327000	2,331,605,048	68,025
2016	1.040000	0.327000	2,516,791,368	239,116
2017	1.130000	0.257000	2,735,343,475	
1000 Totals				<u>\$ 468,427</u>

Exhibit J-1

20	31	32	40	50
Current Year's Total Levy	Maintenance Total Collections	Debt Service Total Collections	Entire Year's Adjustments	Ending Balance 8/31/17
\$	\$ 3,652	\$ 1,150	\$ (1,053)	\$ 15,435
	965	303	(704)	7,366
	1,052	331	(911)	8,807
	1,019	321	(885)	14,180
	422	133	(983)	18,596
	2,801	881	936	29,329
	8,054	2,532	936	41,293
	15,852	4,984	936	48,125
	116,123	36,512	(3,761)	82,720
<u>37,939,214</u>	<u>30,718,540</u>	<u>6,986,429</u>		<u>234,245</u>
<u>\$ 37,939,214</u>	<u>\$ 30,868,480</u>	<u>\$ 7,033,576</u>	<u>\$ (5,489)</u>	500,096
	Penalty and interest receivable on taxes			<u>198,407</u>
	Total taxes receivable per Exhibit C-1			<u>\$ 698,503</u>

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE
CHILD NUTRITION PROGRAM FUND
For the Year Ended August 31, 2017

Exhibit J-2

Data Control Codes		Budget		Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
		Original	Final		
	Revenues				
5700	Local, Intermediate, and Out-of-State	\$ 2,492,010	\$2,492,010	\$ 2,443,873	\$ (48,137)
5800	State Program Revenues	4,500	4,500	4,195	(305)
5900	Federal Program Revenues	283,893	283,893	210,764	(73,129)
5020	Total Revenues	<u>2,780,403</u>	<u>2,780,403</u>	<u>2,658,832</u>	<u>(121,571)</u>
	Expenditures				
	Current:				
0035	Food Services	2,461,918	2,894,918	2,751,663	143,255
6030	Total Expenditures	<u>2,461,918</u>	<u>2,894,918</u>	<u>2,751,663</u>	<u>143,255</u>
1100	Excess (Deficiency) Revenues Over Expenditures	<u>318,485</u>	<u>(114,515)</u>	<u>(92,831)</u>	<u>21,684</u>
	Other Financing Sources (Uses)				
7915	Transfers in			3,762	3,762
	Total Other Financing Sources (Uses)			<u>3,762</u>	<u>3,762</u>
1200	Increase (Decrease) in Fund Balance	318,485	(114,515)	(89,069)	25,446
0100	Fund Balance - September 1 (Beginning)	<u>637,846</u>	<u>637,846</u>	<u>637,846</u>	
3000	Fund Balance - August 31 (Ending)	<u>\$ 956,331</u>	<u>\$ 523,331</u>	<u>\$ 548,777</u>	<u>\$ 25,446</u>

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT

Exhibit J-3

BUDGETARY COMPARISON SCHEDULE

DEBT SERVICE FUND

For the Year Ended August 31, 2017

Data Control Codes	Budget		Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)	
	Original	Final			
Revenues					
5700	Local, Intermediate, and Out-of-State	\$ 6,870,000	\$ 6,870,000	\$ 7,079,690	\$ 209,690
5800	State Program Revenues	210,000	210,000	265,293	55,293
5020	Total Revenues	<u>7,080,000</u>	<u>7,080,000</u>	<u>7,344,983</u>	<u>264,983</u>
Expenditures					
Debt Service:					
0071	Principal	2,885,000	2,885,000	2,885,000	
0072	Interest and Fiscal Agent Fees	4,109,434	4,118,434	4,113,429	5,005
6030	Total Expenditures	<u>6,994,434</u>	<u>7,003,434</u>	<u>6,998,429</u>	<u>5,005</u>
1200	Increase (Decrease) in Fund Balance	85,566	76,566	346,554	269,988
0100	Fund Balance - September 1 (Beginning)	<u>1,553,413</u>	<u>1,553,413</u>	<u>1,553,413</u>	
3000	Fund Balance - August 31 (Ending)	<u>\$ 1,638,979</u>	<u>\$ 1,629,979</u>	<u>\$ 1,899,967</u>	<u>\$ 269,988</u>

(This page intentionally left blank.)

FEDERAL AWARDS SECTION

(This page intentionally left blank)

**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
Friendswood Independent School District
Friendswood, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Friendswood Independent School District (the “District”), as of and for the year ended August 31, 2017, and the related notes to the financial statements, which collectively comprise District’s basic financial statements, and have issued our report thereon dated December 7, 2017.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in black ink that reads "Whitley Penn LLP". The signature is written in a cursive, professional style.

Houston, Texas
December 7, 2017

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND
REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED
BY THE *UNIFORM GUIDANCE***

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

Report on Compliance for Each Major Federal Program

We have audited Friendswood Independent School District's (the "District") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended August 31, 2017. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the federal statutes, regulations and the terms and conditions of its federal awards to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2017.

Report on Internal Control over Compliance

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

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

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

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

Whitley Penn LLP

Houston, Texas
December 7, 2017

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended August 31, 2017

I. Summary of Auditors' Results

Financial Statements

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

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	None Reported
Type of auditors' report issued on compliance with major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2CFR 200.516(a)?	No

Identification of major programs

Name of Federal Program or Cluster: CFDA Numbers

US Department of Education:

Special Education Cluster:

IDEA - Part B, Formula	84.027A
IDEA - Part B, Preschool	84.173A

Child Nutrition Cluster:

<i>Non Cash Assistance (Commodities):</i>	
National School Lunch Program	10.555
<i>Cash Assistance:</i>	
National School Lunch Program	10.555
School Breakfast Program	10.553

Dollar Threshold Considered Between Type A and Type B Federal Programs \$750,000

Auditee qualified as low-risk auditee? Yes

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
For the Year Ended August 31, 2017

II. Financial Statement Findings

None reported

III. Federal Awards Findings and Questioned Costs

None reported

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT

Exhibit K-1

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended August 31, 2017

(2A) Pass Through Entity Identifying Number	(1) Federal Grantor/ Pass-Through Grantor/ Program Title	District Fund Number	(2) Federal CFDA Number	(3) Federal Expenditures
U.S. Department of Education				
Passed Through Texas Education Agency:				
17610101084911	<i>ESEA Title I Part A</i>	211	84.010A	\$ 129,709
<u>Special Education Cluster:</u>				
176600010849116000	<i>IDEA - Part B, Formula</i>	224	84.027A	925,337
176610010849116000	<i>IDEA - Part B, Preschool</i>	225	84.173A	17,069
Total Special Education Cluster				<u>942,406</u>
17420006084911	<i>Career and Technology Education - Carl D. Perkins</i>	244	84.048A	35,352
17694501084911	<i>ESEA Title II, Part A, Teacher/Principal Training</i>	255	84.367A	67,314
17671001084911	<i>Title III - Part A, English Language Acquisitions</i>	263	84.365A	12,475
69551602	<i>Summer School LEP</i>	289	84.369A	1,165
Total passed through Texas Education Agency				<u>1,188,421</u>
Total U.S. Department of Education				<u>1,188,421</u>
U.S. Department of Agriculture				
<u>Child Nutrition Cluster:</u>				
Passed Through the Texas Department of Agriculture:				
Non Cash Assistance (Commodities):				
71301701	<i>National School Lunch Program</i>	240	10.555	60,122
Passed Through Texas Education Agency:				
Cash Assistance:				
71301701	<i>National School Lunch Program</i>	240	10.555	135,547
71401701	<i>School Breakfast Program</i>	240	10.553	15,095
Total Child Nutrition Cluster				<u>210,764</u>
Total U.S. Department of Agriculture				<u>210,764</u>
Total Expenditures of Federal Awards				<u>\$ 1,399,185</u>

Note 1 - Summary of Significant Accounting Policies

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

Expenditures reported on the Schedule of Expenditures of Federal Awards are reported on the modified accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The District has not elected to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

Federal grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant, and, accordingly, when such funds are received, they are recorded as unearned revenues until earned. Generally, unused balances are returned to the grantor at the close of specified project periods. All federal grants are subject to review by the grantor agencies. Any expenditures identified by the grantor agencies as disallowed could require reimbursement to the grantor agency from the District's general fund.

Note 2 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of the District under programs of the federal government for the year ended August 31, 2017. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Uniform Guidance. Because the schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net position or cash flows of the District.

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended August 31, 2017

Exhibit K-2

Federal regulations, Title 2 U.S. Code of Federal Regulations Section 200.511 states, “The auditee is responsible for follow-up and corrective action on all audit findings. As part of this responsibility, the auditee must prepare a summary schedule of prior audit findings.” The summary schedule of prior audit findings must report the status of the following:

- All audit findings included in the prior audit’s schedule of findings and questioned costs and
- All audit findings reported in the prior audit’s summary schedule of prior audit findings except audit findings listed as corrected.

The Summary Schedule of Prior Audit Findings for the year ended August 31, 2017 has been prepared to address these requirements.

I. Prior Audit Findings

None Noted

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
CORRECTIVE ACTION PLAN
For the Year Ended August 31, 2017

Exhibit K-2

Federal regulations, Title 2 U.S. Code of Federal Regulations §200.511 states, “At the completion of the audit, the auditee must prepare, in a document separate from the auditor's findings described in §200.516 Audit findings, a corrective action plan to address each audit finding included in the current year auditor's reports.”

The Corrective Action Plan for the year ended August 31, 2017 has been prepared to address these requirements.

I. Corrective Action Plan

Not Applicable

DO NOT PRINT IN REPORTS

Schedule L-1 – Required Responses to Selected School FIRST Indicators

SF2	Were there any disclosures in the Annual Financial Report and/or other sources of information concerning nonpayment of any terms of any debt agreement at fiscal year end?	No
SF4	Was there an unmodified opinion in the Annual Financial Report on the financial statements as a whole?	Yes
SF5	Did the Annual Financial Report disclose any instances of material weaknesses in internal controls over financial reporting and compliance for local, state, or federal funds?	No
SF6	Was there any disclosure in the Annual Financial Report of material noncompliance for grants, contracts, and laws related to local, state, or federal funds?	No
SF7	Did the school district make timely payments to the Teachers Retirement System (TRS), Texas Workforce Commission (TWC), Internal Revenue Service (IRS), and other government agencies?	Yes
SF8	Did the school district not receive an adjusted repayment schedule for more than one fiscal year for an over allocation of Foundation School Program (FSP) funds as a result of a financial hardship?	Yes
SF10	Total accumulated accretion on CABs included in government-wide financial statements at fiscal year-end.	\$ 232,916
SF11	Net Pension Assets (1920) at fiscal year-end.	\$ 0
SF12	Net Pension Liabilities (2540) at fiscal year-end.	\$ 9,980,962
SF13	Pension Expense (6147) at fiscal year-end.	