

**FRIENDSWOOD INDEPENDENT
SCHOOL DISTRICT**

**ANNUAL FINANCIAL AND
COMPLIANCE REPORT**

For The Year Ended August 31, 2013

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
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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, 2013, at a meeting of the board of trustees of such school district on November 11, 2013.

Rebecca Hillenburg
President of the Board

Daniel Hopkins
Vice President of the Board

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Friendswood Independent School District
302 Laurel Drive
Friendswood, Texas 77546

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, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the District, as of August 31, 2013, 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the District adopted the provisions of GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position and GASB Statement No. 65, Items Previously Reported as Assets and Liabilities as of August 31, 2013. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 7–15 and 56–57 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The 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 U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements, and 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

To the Board of Trustees
Friendswood Independent School District

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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 11, 2013, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

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

Texas City, Texas
November 11, 2013

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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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, 2013. Please read it in conjunction with the District's financial statements, which follow this section.

Financial Highlights

The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$6,883,972 (net assets). Of this amount, negative \$6,115,150 was net investment in capital assets, which represents the amount invested in capital assets net of accumulated depreciation and related debt, \$304,996 was restricted for debt service, \$437,738 was restricted for food service, \$31,692 was restricted for federal and state programs, \$792,049 was restricted for campus activities and \$11,429,556 was unrestricted.

- The District's total net position decreased by \$2,494,575 during the current fiscal year.
- The District's governmental funds reported combined ending fund balances of \$15,006,293 as of August 31, 2013. Of this amount, \$732,244 is non-spendable in the form of (1) inventory in the amount of \$126,499 and (2) prepaid expenditures in the amount of \$605,745. Fund balance of \$2,663,207 is restricted for (1) federal and state grants in the amount of \$469,130, (2) capital acquisitions in the amount of \$1,742,351, and (3) debt service in the amount of \$451,726. Fund balance of \$3,492,049 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 \$792,049. The remaining amount in fund balance of \$8,118,793 is classified as unassigned and is available for spending at the District's discretion. This represents 21% of total general fund expenditures.
- The General Fund ended the year with unassigned fund balance of , an increase of \$1,106,444 as compared to the prior fiscal year.
- The District's bonded debt decreased by \$1,704,978 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 and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

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 only 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, debt service fund, and the capital projects fund, all 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. The funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operation.

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.

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.

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, assets exceeded liabilities by \$6,883,972 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., capitalized bond and debt issuance costs, land, buildings and improvements, furniture and equipment, construction in progress), less any outstanding related debt used to acquire those assets. The District uses these capital assets to provide services to students; consequently, these assets are *not* available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

	Governmental Activities		Business-Type Activities		Totals	
	2013	2012	2013	2012	2013	2012
Current and other assets	\$ 19,675,932	\$ 21,778,767	\$ 3,091	\$ 6,823	\$ 19,679,023	\$ 21,785,590
Capital and non current assets	104,543,237	108,844,653			104,543,237	108,844,653
Total Assets	124,219,169	130,623,420	3,091	6,823	124,222,260	130,630,243
Deferred charge on refunding	301,070	1,620			301,070	1,620
Total Deferred Outflows of Resources	301,070	1,620			301,070	1,620
Current liabilities	3,842,574	5,128,402		460	3,842,574	5,128,862
Long term liabilities	113,796,784	115,289,872			113,796,784	115,289,872
Total Liabilities	117,639,358	120,418,274		460	117,639,358	120,418,734
Net Position:						
Net investment in capital assets	(6,115,150)	(1,569,754)			(6,115,150)	(1,569,754)
Restricted	1,566,475	2,501,601			1,566,475	2,501,601
Unrestricted	11,429,556	9,274,919	3,091	6,363	11,432,647	9,281,282
Total Net Position	\$ 6,880,881	\$ 10,206,766	\$ 3,091	\$ 6,363	\$ 6,883,972	\$ 10,213,129

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

	Governmental Activities	
	2013	2012
Federal and state programs	\$ 31,692	\$ 31,672
Food Service	437,738	463,621
Debt Service	304,996	1,225,194
Campus Activities	792,049	781,114
	\$ 1,566,475	\$ 2,501,601

The remaining balance of unrestricted net position of \$11,429,556 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 \$3,325,885 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 \$3,091, all of which is unrestricted and may be used to meet on-going obligations.

	Governmental Activities		Business-Type Activities		Totals	
	2013	2012	2013	2012	2013	2012
Program Revenues						
Charges for services	\$ 4,130,186	\$ 3,910,582	\$ 112,695	\$ 180,189	\$ 4,242,881	\$ 4,090,771
Operating grants	3,623,064	5,165,591			3,623,064	5,165,591
General Revenues						
Property taxes	29,675,225	28,775,808			29,675,225	28,775,808
State Aid - Formula Grants	14,160,727	11,876,753			14,160,727	11,876,753
Interest earnings	101,469	110,335			101,469	110,335
Other	58,283	28,775			58,283	28,775
Total Revenues	51,748,954	49,867,844	112,695	180,189	51,861,649	50,048,033
Expenses						
Instruction	27,561,793	27,140,030			27,561,793	27,140,030
Instructional resources and media services	634,473	641,100			634,473	641,100
Curriculum and staff development	310,786	107,840			310,786	107,840
Instructional leadership	899,902	760,142			899,902	760,142
School leadership	2,369,782	2,339,251			2,369,782	2,339,251
Guidance, counseling, and evaluation services	943,246	1,006,219			943,246	1,006,219
Social work services	1,095				1,095	
Health services	537,924	522,444			537,924	522,444
Student transportation	1,633,489	1,586,190			1,633,489	1,586,190
Food service	2,649,688	2,532,436			2,649,688	2,532,436
Extracurricular activities	1,643,125	1,612,808			1,643,125	1,612,808
General administration	2,023,745	2,122,653			2,023,745	2,122,653
Plant, maintenance and operations	4,709,446	5,009,605			4,709,446	5,009,605
Security and monitoring services	175,218	156,389			175,218	156,389
Data processing services	983,752	1,176,760			983,752	1,176,760
Community services	352,734	266,970			352,734	266,970
Interest on long-term debt	5,269,606	5,225,675			5,269,606	5,225,675
Debt issuance costs and fees	148,652	1,300			148,652	1,300
Payments related to shared services arrangements	1,163,749	1,209,469			1,163,749	1,209,469
Payments to Juvenile Justice Alternative Education Programs	42,716	13,415			42,716	13,415
Other governmental charges	221,669	185,764			221,669	185,764
Fuel Fund				58,889		58,889
Vending Fund			79,634	86,219	79,634	86,219
Total Expenses	54,276,590	53,616,460	79,634	145,108	54,356,224	53,761,568
Excess (deficiency) before special items and transfers	(2,527,636)	(3,748,616)	33,061		(2,494,575)	(3,748,616)
Transfers	36,333	28,718	(36,333)	(28,718)		
Increase (Decrease) in Net Position	(2,491,303)	(3,719,898)	(3,272)	6,363	(2,494,575)	(3,713,535)
Beginning net position	10,206,766	13,926,664	6,363		10,213,129	13,926,664
Prior Period Adjustment	(834,582)				(834,582)	
Ending Net Position	\$ 6,880,881	\$ 10,206,766	\$ 3,091	\$ 6,363	\$ 6,883,972	\$ 10,213,129

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

Governmental Activities

Governmental activities decreased the District's net position by \$3,325,885. Revenues are generated primarily from three sources. Property taxes, state-aid formula grants, and operating grants and contributions represent 91.7 percent of total revenues. The remaining 8.3 percent is generated from charges for services, investment earnings, and miscellaneous revenues.

	Total Revenues	% of Total Revenues
Property taxes	\$ 29,675,225	57%
State Aid - Formula Grants	14,160,727	27%
Operating grants and contributions	3,623,064	7%
Other revenue	4,289,938	8%
Total Revenues	\$ 51,748,954	100%

The primary functional expenses of the District are instruction and interest on long-term debt, which represents 60 percent of total expenses. The remaining individual functional categories of expenses are each less than 10 percent of total expenses.

	Total Expenses	% of Total Expenses
Instruction	\$ 27,561,793	50%
Interest on long-term debt	5,269,606	10%
Other expenses	21,445,191	40%
Total Expenses	\$ 54,276,590	100%

Business-Type Activities

Net position of the District's business type activities decreased by \$3,272 for the year ended August 31, 2013.

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 \$15,006,293, an increase of \$358,500 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 \$8,150,768, while total fund balance reached \$11,550,737. 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.

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 increased by \$1,536,343, while total general fund expenditures showed an increase of \$1,798,328. The increase in expenditures was primarily due to a 3% one-time supplement paid to all full-time employees.

The debt service fund has a total fund balance of \$451,726, 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 \$80,609 was in line with budgeted expectations.

The capital projects fund has a total fund balance of \$1,742,351, all of which is restricted for authorized construction and technology projects/enhancements. The net decrease in fund balance during the current year of \$1,243,524 was due to the renovation of facilities.

General Fund Budgetary Highlights

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

	Budget	
	Original	Final Amended
Total revenues	\$ 37,373,644	\$ 37,373,644
Total expenditures	39,101,363	39,553,198
Net change in fund balance	\$ (1,727,719)	\$ (2,179,554)

Capital Assets and Long-Term Liabilities

Capital Assets

The District's investment in capital assets for its governmental type activities as of August 31, 2013, includes land, buildings and improvements, furniture and equipment, and construction in progress. The investment in capital assets (capital outlays) during the current year amounted to \$104,543,237. The following table summarizes the investment in capital assets as of August 31, 2013 and 2012.

	2013	2012
Land	\$ 2,174,969	\$ 1,990,385
Buildings and improvements	139,256,186	138,338,314
Furniture and equipment	9,500,975	8,832,745
Leased assets under capital lease	144,147	144,417
Construction in progress	262,992	631,623
Total	151,339,269	149,937,484
Accumulated depreciation	(46,796,032)	(41,091,211)
Net capital assets	\$ 104,543,237	\$ 108,846,273

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 \$109,315,000 in bonded debt outstanding, a decrease of \$1,704,978 over the previous year. The District's bonds are sold with a "AAA" rating and are guaranteed through the Texas Permanent School Fund Guarantee Program or by a municipal bond insurance policy. The underlying rating of the bonds from Standard and Poor's is "A+" and from Moody's Investors Service is "Aa2" for general obligation debt.

Changes in long-term debt, for the year ended August 31, 2013, are as follows:

Outstanding 09/01/12	Issued	Retired	Outstanding 08/31/13
\$ 111,019,978	\$ 4,190,000	\$ (5,894,978)	\$ 109,315,000

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 increase by 1% or approximately 65 students at the time the budget was adopted.
- Taxable property values in the District have increased 2.75% over the prior year. The average taxable value of a residence in Friendswood has shown a five-year upward trend increasing from an average taxable value in 2009 of \$223,820 to \$234,368 in 2013. From the increase in taxable property values, the District estimates an increase in general fund tax revenue of \$758,026 in 2013-2014.
- The maintenance and operations tax rate for fiscal year 2013-2014 is \$1.04 while the debt service tax rate is \$.327 for a total tax rate of \$1.367. This rate has remained unchanged for the past six years.
- In June 2013, the state legislature enacted SB1 which increased funding to most school districts across the State. The District's 2013-2014 state funding revenues are projected to increase by approximately \$1.3 million.
- Operating expenses per student in the District's general fund were \$6,431 for 2012-2013. Operating expenses per student for the 2013-2014 year are projected to be \$6,786.
- Expenditures are budgeted to increase 6% or \$2.4 million. The majority of this increase is due to a 3.5% pay increase given to all employees, and in the addition of 19 new staff, 15 of which are teachers.
- Residential and commercial new property development is the primary source of expected value increase for Friendswood ISD tax levy. Looking forward it is estimated that new construction will increase total taxable values by 2.5%.

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

These indicators were taken into account when adopting the budget for 2013-2014. The Friendswood Independent School District general fund adopted budget for 2013–2014 is as follows:

<u>General Fund Budget</u>	<u>Original</u>
Budgeted Revenues	\$ 41,050,000
Budgeted Expenditures	<u>41,050,000</u>
Budget Deficit	<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.fisd12.net.

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BASIC FINANCIAL STATEMENTS

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FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT

Exhibit A-1

STATEMENT OF NET POSITION

August 31, 2013

Data Control Codes		Governmental Activities	Business-type Activities	Total
	Assets			
1110	Cash and cash equivalents	\$ 16,528,473	\$ 2,497	\$ 16,530,970
1225	Property taxes receivables, net	492,770		492,770
1240	Due from other governments	1,840,873		1,840,873
1267	Due from fiduciary funds	1,644		1,644
1290	Other receivables, net	79,928	594	80,522
1300	Inventories	126,499		126,499
1410	Deferred expenses	605,745		605,745
	Capital assets not subject to depreciation:			
1510	Land	2,174,969		2,174,969
1580	Construction in progress	262,992		262,992
	Capital assets net of depreciation:			
1520	Buildings and improvements, net	97,306,876		97,306,876
1530	Furniture and equipment, net	4,798,400		4,798,400
1000	Total Assets	124,219,169	3,091	124,222,260
	Deferred Outflows of Resources			
1700	Deferred charge on refunding	301,070		301,070
	Total deferred outflows of resources	301,070		301,070
	Liabilities			
2110	Accounts payable	618,362		618,362
2140	Interest payable	224,560		224,560
2160	Accrued wages payable	1,431,603		1,431,603
2180	Due to other governments	722,420		722,420
2190	Due to student groups	1,644		1,644
2200	Accrued expenditures	288,649		288,649
2300	Unearned revenue	555,336		555,336
	Noncurrent Liabilities:			
2501	Due within one year	2,022,702		2,022,702
2502	Due in more than one year	111,774,082		111,774,082
2000	Total Liabilities	117,639,358		117,639,358
	Net Position			
3200	Net investment in capital assets	(6,115,150)		(6,115,150)
	Restricted for:			
3820	Federal and state programs	31,692		31,692
3840	Food service	437,738		437,738
3850	Debt service	304,996		304,996
3870	Campus activities	792,049		792,049
3900	Unrestricted	11,429,556	3,091	11,432,647
3000	Total Net Position	\$ 6,880,881	\$ 3,091	\$ 6,883,972

See Notes to the Financial Statements

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

For the Year Ended August 31, 2013

Data Control Codes	Functions/Programs	Expenses	Program Revenue	
			Charges for Services	Operating Grants and Contributions
	Governmental activities:			
11	Instruction	\$ 27,561,793	\$ 1,354,712	\$ 2,722,526
12	Instructional resources and media services	634,473		23,484
13	Curriculum and staff development	310,786	13,976	28,889
21	Instructional leadership	899,902		46,982
23	School leadership	2,369,782		106,505
31	Guidance, counseling, and evaluation	943,246		41,039
32	Social work services	1,095		
33	Health services	537,924		111,777
34	Student transportation	1,633,489		65,131
35	Food service	2,649,688	2,067,406	190,524
36	Extracurricular activities	1,643,125	211,576	46,412
41	General administration	2,023,745		70,425
51	Plant, maintenance and operations	4,709,446	220,974	124,183
52	Security and monitoring services	175,218		
53	Data processing services	983,752		34,281
61	Community services	352,734	261,542	10,906
72	Interest on long-term debt	5,269,606		
73	Debt issuance costs and fees	148,652		
93	Payments related to shared services	1,163,749		
95	Payments to Juvenile Justice Alternative	42,716		
99	Other governmental charges	221,669		
TG	Total governmental activities	<u>54,276,590</u>	<u>4,130,186</u>	<u>3,623,064</u>
	Business-type activities			
01	Fuel Fund		7,107	
02	Vending Fund	79,634	105,588	
TB	Total business-type activities	<u>79,634</u>	<u>112,695</u>	
TP	Total primary government	<u>\$ 54,356,224</u>	<u>\$ 4,242,881</u>	<u>\$ 3,623,064</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**
- PA** **Prior period adjustments**
- 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
\$ (23,484,555)	\$	\$ (23,484,555)
(610,989)		(610,989)
(267,921)		(267,921)
(852,920)		(852,920)
(2,263,277)		(2,263,277)
(902,207)		(902,207)
(1,095)		(1,095)
(426,147)		(426,147)
(1,568,358)		(1,568,358)
(391,758)		(391,758)
(1,385,137)		(1,385,137)
(1,953,320)		(1,953,320)
(4,364,289)		(4,364,289)
(175,218)		(175,218)
(949,471)		(949,471)
(80,286)		(80,286)
(5,269,606)		(5,269,606)
(148,652)		(148,652)
(1,163,749)		(1,163,749)
(42,716)		(42,716)
(221,669)		(221,669)
<u>(46,523,340)</u>		<u>(46,523,340)</u>
	7,107	7,107
	<u>25,954</u>	<u>25,954</u>
	<u>33,061</u>	<u>33,061</u>
<u>\$ (46,523,340)</u>	<u>33,061</u>	<u>(46,490,279)</u>
22,595,651		22,595,651
7,079,574		7,079,574
14,160,727		14,160,727
101,469		101,469
58,283		58,283
36,333	(36,333)	
<u>44,032,037</u>	<u>(36,333)</u>	<u>43,995,704</u>
(2,491,303)	(3,272)	(2,494,575)
10,206,766	6,363	10,213,129
(834,582)		(834,582)
<u>\$ 6,880,881</u>	<u>\$ 3,091</u>	<u>\$ 6,883,972</u>

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT

BALANCE SHEET

GOVERNMENTAL FUNDS

August 31, 2013

<u>Data Control Codes</u>	<u>General Fund</u>	<u>Debt Service Fund</u>
Assets		
1110 Cash and temporary investments	\$ 11,862,386	\$ 526,904
Receivables:		
1220 Property taxes - delinquent	458,824	124,844
1230 Allowance for uncollectible taxes (credit)	(74,971)	(15,927)
1240 Receivables from other governments	1,161,950	
1260 Due from other funds	754,357	
1290 Other receivables	64,630	
1300 Inventories, at cost	126,499	
1410 Prepaid items	573,470	
1000 Total Assets	<u>14,927,145</u>	<u>635,821</u>
Liabilities, Deferred Inflows and Fund Balances		
Liabilities:		
2110 Accounts payable	\$ 303,691	\$
2160 Accrued wages payable	1,409,650	
2170 Due to other funds	119,364	106,265
2180 Payable to other governments	717,420	
2300 Unearned revenues	541,905	
2000 Total Liabilities	<u>3,092,030</u>	<u>106,265</u>
Deferred Inflows of Resources		
2600 Unavailable revenue - property taxes	284,378	77,830
Total Deferred inflows of resources	<u>284,378</u>	<u>77,830</u>
Fund Balances:		
Nonspendable :		
3410 Inventories	126,499	
3430 Prepaid items	573,470	
Restricted:		
3450 Grant restrictions		
3470 Capital acquisitions		
3480 Debt service		451,726
Committed :		
3545 Other purposes	2,700,000	
3600 Unassigned	8,150,768	
3000 Total Fund Balances	<u>11,550,737</u>	<u>451,726</u>
4000 Total Liabilities, Deferred Inflows and Fund Balances	<u>\$ 14,927,145</u>	<u>\$ 635,821</u>

See Notes to the Financial Statements

Exhibit C-1

Capital Projects Fund	Total Nonmajor Funds	Total Governmental Funds
\$ 1,979,704	\$ 1,161,182	\$ 15,530,176
		583,668
		(90,898)
	678,923	1,840,873
	117,720	872,077
	15,298	79,928
		126,499
	32,275	605,745
1,979,704	2,005,398	19,548,068
\$ 237,353	\$ 57,087	\$ 598,131
	21,953	1,431,603
	646,448	872,077
	5,000	722,420
	13,431	555,336
237,353	743,919	4,179,567
		362,208
		362,208
		126,499
	32,275	605,745
	469,130	469,130
1,742,351		1,742,351
		451,726
	792,049	3,492,049
	(31,975)	8,118,793
1,742,351	1,261,479	15,006,293
\$ 1,979,704	\$ 2,005,398	\$ 19,548,068

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FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF BALANCE SHEET FOR GOVERNMENTAL FUNDS
TO STATEMENT OF NET POSITION
August 31, 2013

Exhibit C-2

<u>Data Control Codes</u>		
	Total fund balance, governmental funds	\$ 15,006,293
	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.	104,543,237
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).	362,208
3	Deferred charges on refunding	301,070
	Long-term liabilities, including bonds payable, are not due and payable in the current period, and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:	
4	General obligation bonds	(109,315,000)
5	Premiums on issuance	(3,386,808)
6	Accreted interest on premium compound interest bonds	(216,730)
7	Accrued compensated absences	(878,246)
8	Accrued interest payable	(224,560)
9	Addition of Internal Service fund net position	<u>689,417</u>
19	Total net position - governmental activities	<u><u>\$ 6,880,881</u></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, 2013

Data Control Codes		General Fund	Debt Service Fund	Capital Projects Fund
Revenues				
5700	Local, intermediate, and out-of-state	\$ 24,231,846	\$ 7,121,394	\$ 7,223
5800	State program revenues	15,899,429		
5900	Federal program revenues			
5020	Total Revenues	<u>40,131,275</u>	<u>7,121,394</u>	<u>7,223</u>
Expenditures				
Current:				
0011	Instruction	22,296,459		4,000
0012	Instruction resources and media services	553,141		
0013	Curriculum and instructional staff development	241,485		
0021	Instructional leadership	774,959		
0023	School leadership	2,063,541		
0031	Guidance, counseling and evaluation services	824,098		
0032	Social work services	957		
0033	Health services	392,524		
0034	Student transportation	1,432,767		
0035	Food services	852		
0036	Extracurricular activities	1,438,958		67,562
0041	General administration	1,765,995		
0051	Facilities maintenance and operations	3,919,248		637,470
0052	Security and monitoring services	151,742		
0053	Data processing services	848,054		38,490
0061	Community services	284,891		
Debt service:				
0071	Principal on long-term debt		1,699,978	
0072	Interest on long-term debt		5,460,152	
Capital outlay:				
0081	Capital outlay	195,251		503,225
Intergovernmental:				
0093	Payments related to shared services arrangements	1,163,749		
0095	Payments to Juvenile Justice Alternative Education Program	42,716		
0099	Other intergovernmental charges	221,669		
6030	Total Expenditures	<u>38,613,056</u>	<u>7,160,130</u>	<u>1,250,747</u>
1100	Excess (deficiency) of revenues over expenditures	<u>1,518,219</u>	<u>(38,736)</u>	<u>(1,243,524)</u>
Other Financing Sources (Uses)				
7901	Refunding bonds issued		4,190,000	
7915	Transfers in	18,124		
7916	Premium on issuance of bonds		486,495	
7917	Prepaid interest		7,498	
8911	Transfers out			
8949	Payment to Bond Refunding Escrow Agent		(4,564,648)	
7080	Total other financing sources (uses)	<u>18,124</u>	<u>119,345</u>	
1200	Net change in fund balances	1,536,343	80,609	(1,243,524)
0100	Fund Balance - September 1 (Beginning)	<u>10,014,394</u>	<u>371,117</u>	<u>2,985,875</u>
3000	Fund Balance - August 31 (Ending)	<u>\$ 11,550,737</u>	<u>\$ 451,726</u>	<u>\$ 1,742,351</u>

See Notes to the Financial Statements

Exhibit C-3

<u>Total Nonmajor Funds</u>	<u>Total Governmental Funds</u>
\$ 2,742,116	\$ 34,102,579
378,279	16,277,708
<u>1,506,183</u>	<u>1,506,183</u>
<u>4,626,578</u>	<u>51,886,470</u>
2,153,747	24,454,206
52	553,193
34,288	275,773
12,778	787,737
9,611	2,073,152
193	824,291
	957
89,611	482,135
402	1,433,169
2,345,464	2,346,316
8,010	1,514,530
2,268	1,768,263
1,453	4,558,171
1,792	153,534
46	886,590
	284,891
	1,699,978
	5,460,152
	698,476
	1,163,749
	42,716
	221,669
<u>4,659,715</u>	<u>51,683,648</u>
<u>(33,137)</u>	<u>202,822</u>
	4,190,000
25,953	44,077
	486,495
	7,498
(7,744)	(7,744)
	<u>(4,564,648)</u>
<u>18,209</u>	<u>155,678</u>
(14,928)	358,500
<u>1,276,407</u>	<u>14,647,793</u>
<u>\$ 1,261,479</u>	<u>\$ 15,006,293</u>

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, 2013

Exhibit C-4

<u>Data Control Codes</u>	
Net change in fund balances - total governmental funds (from C-3)	\$ 358,500
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	1,406,348
Depreciation Expense	(5,709,384)
2 Property tax revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(152,902)
3 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.	1,699,978
4 Proceeds from the refunding of long-term debt is reported as an other financing source in the governmental funds. In the government-wide financial statements, proceeds are treated as an increase in long-term liabilities.	(4,190,000)
5 Premium received on the refunding of bonds	(486,495)
6 Prepaid interest received on refunding of bonds	(7,498)
7 Payment to bond refunding escrow agency	4,564,648
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:	
8 Decrease in interest payable not recognized in fund statements	3,511
9 Amortization of bond premium	181,857
10 Amortization of deferred loss on refunded bonds	(140,291)
11 Accreted interest on capital appreciation bonds	(3,183)
12 (Increase) decrease in long-term portion of accrued compensated absences payable	175,142
13 Internal service funds are used by management to charge the costs of certain activities, such as insurance and telecommunications, to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities (see D-3).	(191,534)
Change in net position of governmental activities (see B-1)	<u><u>\$ (2,491,303)</u></u>

See Notes to the Financial Statements

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT

Exhibit D-1

STATEMENT OF NET POSITION

PROPRIETARY FUNDS

August 31, 2013

<u>Data Control Codes</u>	<u>Business-type Activities - Enterprise Funds</u>	<u>Governmental Activities - Internal Service Fund</u>
Assets		
Current Assets:		
1110	\$ 2,497	\$ 998,297
1290	594	
	<u>3,091</u>	<u>998,297</u>
1000	<u>3,091</u>	<u>998,297</u>
Liabilities		
Current Liabilities:		
2110		20,231
		<u>20,231</u>
Non-current Liabilities:		
2590		288,649
		<u>288,649</u>
2000		<u>308,880</u>
Net Position		
3900	3,091	689,417
3000	<u>\$ 3,091</u>	<u>\$ 689,417</u>

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, 2013

Exhibit D-2

Data Control Codes	Business-type Activities - Enterprise Funds	Governmental Activities - Internal Service Fund
Operating Revenues		
5754 Charges for services	\$ 112,695	\$ 4,885
5020 Total Operating Revenues	<u>112,695</u>	<u>4,885</u>
Operating Expenses		
6100 Payroll costs	11,637	
6200 Purchased and contracted services	65,476	
6400 Claims expense and other operating expenses	2,521	211,805
6030 Total Operating Expenses	<u>79,634</u>	<u>211,805</u>
1200 Operating Income	<u>33,061</u>	<u>(206,920)</u>
Non-Operating Revenues (Expenses)		
7955 Investment earnings		15,386
Total Nonoperating Revenues (Expenses)		<u>15,386</u>
Income before Transfers	33,061	(191,534)
Transfers		
8911 Transfers out	(36,333)	
1200 Change in Net Position	(3,272)	(191,534)
0100 Net Position - September 1 (Beginning)	6,363	880,951
3300 Net Position - August 31 (Ending)	<u>\$ 3,091</u>	<u>\$ 689,417</u>

See Notes to the Financial Statements.

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT

Exhibit D-3

COMBINING STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

For the Year Ended August 31, 2013

	Business-type Activities - Enterprise Funds	Governmental Activities - Internal Service Fund
	<u> </u>	<u> </u>
Cash Flows from Operating Activities:		
Cash received from user charges	\$ 112,648	\$
Cash receipts from quasi-external operating activities with other funds		4,885
Cash payments for insurance claims		(103,888)
Cash payments to suppliers for goods and services	(67,997)	
Cash payments to employees	(12,097)	
Net Cash Provided by (Used for) Operating Activities	<u>32,554</u>	<u>(99,003)</u>
 Cash Flows from Non-Capital Financing Activities:		
Advances to other funds	(36,333)	
Net Cash Provided by (Used for) Non-Capital Financing Activities	<u>(36,333)</u>	
 Cash Flows from Investing Activities:		
Interest on investments		15,386
Net Cash Provided by Investing Activities		<u>15,386</u>
 Net Increase in Cash and Cash Equivalents	(3,779)	(83,617)
Cash and Cash Equivalents at Beginning of Year	<u>6,276</u>	<u>1,081,914</u>
Cash and Cash Equivalents at End of Year	<u>\$ 2,497</u>	<u>\$ 998,297</u>
 Reconciliation to Balance Sheet		
Cash and Cash Equivalents Per Cash Flow	\$ 2,497	\$ 998,297
Cash and Cash Equivalents per Balance Sheet	<u>\$ 2,497</u>	<u>\$ 998,297</u>
 Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating Income (Loss)	\$ 33,061	\$ (206,920)
Change in Assets and Liabilities:		
Decrease (increase) in Receivables	(47)	
Increase (decrease) in Accounts Payable		(3,725)
Increase (decrease) in Claims Payable		111,642
Increase (decrease) in Accrued Wages Payable	(460)	
Net Cash Provided by (Used for) Operating Activities	<u>\$ 32,554</u>	<u>\$ (99,003)</u>

See Notes to the Financial Statements.

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT*Exhibit E-1***STATEMENT OF FIDUCIARY NET POSITION***August 31, 2013*

<u>Data Control Codes</u>		<u>Private Purpose Trust Funds</u>	<u>Agency Fund</u>
	Assets		
1110	Cash and cash equivalents	\$ 8,028	\$ 988,924
	Total Assets	<u>\$ 8,028</u>	<u>\$ 988,924</u>
	Liabilities		
2110	Accounts payable		\$ 35,902
2190	Due to student groups		819,287
2200	Other Accrued expenses		133,735
2000	Total Liabilities		<u>\$ 988,924</u>
	Net Position		
3800	Restricted	<u>\$ 8,028</u>	

See Notes to the Financial Statements.

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT

Exhibit E-2

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

For the Year Ended August 31, 2013

	<u>Private Purpose Trust Funds</u>
Deductions	
Non-operating expenses	\$ 2,000
Total deductions	<u>2,000</u>
Change in net position	(2,000)
Net position beginning of year	<u>10,028</u>
Net position end of year	<u><u>\$ 8,028</u></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 reporting 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.
- The *capital projects fund* is used to account for proceeds from sales of bonds and other revenues to be used for authorized construction and technology projects/enhancements.

Additionally, the District reports the following fund types:

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*.

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.

Implementation of New Standards

In the current fiscal, year the District implemented the following new standards: GASB Statement 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre- November 30, 1989 FASB and AICPA Pronouncements (“GASB 62”), which incorporates into the GASB’s authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict or contradict GASB pronouncements: 1) Financial Accounting Standards Board (FASB) Statements and Interpretations; 2) Accounting Principles Board Opinions; 3) Accounting Research Bulletins of the American Institute of Certified Public Accountants’ (AICPA) Committee on Accounting Procedure. Implementation of GASB 62 is reflected in the financial statements and notes to the financial statements.

GASB Statement 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position (“GASB 63”), amends the net asset reporting requirements in Statement No. 34 and other pronouncements by incorporating deferred outflows of the resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position rather than net assets. Implementation of GASB 63 is reflected in the financial statements.

GASB Statement 65, Items Previously Reported as Assets and Liabilities (“GASB 65”), establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources and deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. Implementation of GASB 65 is reflected in the financial statements.

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.

Note 1 - Summary of Significant Accounting Policies (continued)

Deposits and Investments (continued)

Investments for the District are reported at fair value based on quoted market prices at August 31, 2013. The investment pools operate in accordance with appropriate state laws and regulations. The reported value of the pools is the same as the fair value of the pool shares.

Receivables and Payables

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

Property tax receivables include unpaid property taxes at year-end along with penalties and interest assessed on these unpaid taxes and are shown net of an allowance for uncollectibles. 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 2013 (tax year 2012) were \$2,154,126,189. 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 \$1.367, which included \$1.04 for maintenance and operations, and \$.327 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 2013 fiscal year was \$29,446,905. 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.

Note 1 - Summary of Significant Accounting Policies (continued)

Capital Assets

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

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

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	12 - 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.

Note 1 - Summary of Significant Accounting Policies (continued)

Long-term Obligations (continued)

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

The current requirements for general obligation bonds principal and interest expenditures are accounted for in the debt service fund. The current requirements for 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.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then. The District only has one item that qualifies for reporting in this category. It is the deferred charge on refunding reported in the government-wide statement of net position. A 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.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The amount of deferred inflows in the governmental funds related to unearned revenue for property taxes at August 31, 2013 was \$362,208.

Net Position and Fund Balances

Beginning with fiscal year 2011, Friendswood Independent School District implemented GASB Statement No. 54 "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on 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).

Note 1 - Summary of Significant Accounting Policies (continued)

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, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Note 2 - Deposits and Investments

Cash Deposits

The District's funds are required to be deposited and invested under the terms of a depository contract pursuant to the Texas School Depository Act. The depository bank pledges securities which comply with state law and these securities are held for safekeeping and trust with the District's and the depository banks' agent bank. The pledged securities are approved by the Texas Education Agency and shall be in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance. At August 31, 2013, the District's cash on hand totaled \$ 2,331,744. Pledged collateral and FDIC insurance totaled \$1,138,092, resulting in \$1,193,652 of the District's deposits that were uncollateralized.

Investments

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

For fiscal year 2013, the District invested in the State of Texas Texpool, the State of Texas TexSTAR Investment Pool, MBIA Texas Class Investment Pool, and the Texas Association of School Boards Lone Star Investment Pool. 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 Lehman Brothers and 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:

	Fair Market Value	Weighted Average Maturity (In days)
Governmental Activities:		
Cash and deposits	\$ 908,551	N/A
Certificates of deposit	3,750,000	N/A
Investments		
Local Government Investment Pools:		
Lone Star	2,340,565	57
MBIA Texas Class	9,317,283	34
Texpool	65,116	49
TexStar	146,958	54
	<u>11,869,922</u>	39
Total Investments	<u>15,619,922</u>	
Total Governmental Activities	<u>16,528,473</u>	
Business-type Activities:		
Cash and deposits	<u>2,497</u>	
Total Business-type Activities	<u>2,497</u>	
Fiduciary Funds:		
Cash and deposits	<u>996,952</u>	
Total Fiduciary Funds	<u>996,952</u>	
Total	<u><u>\$ 17,527,922</u></u>	
Investment earnings	\$ 101,469	
Total Investment earnings	<u><u>\$ 101,469</u></u>	

Note 2 - Deposits and Investments (continued)

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates may adversely affect the value of the investments. The District monitors interest rate risk utilizing weighted average maturity analysis. In accordance with its investment policy, the District reduces its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio as a whole to no more than 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, 2013, the District's investments were rated as follows:

<u>Investment</u>	<u>Rating</u>	<u>Rating Agency</u>
Lone Star	AAA	Standard and Poor's
MBIA Texas Class	AAAm	Standard and Poor's
Texpool	AAAm	Standard and Poor's
TexStar	AAAm	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, 2013 consisted of the following:

<u>Investment Type</u>	<u>Fair Market Value</u>	<u>Percentage of Portfolio</u>
Lone Star	\$ 2,340,565	14.98%
MBIA Texas Class	9,317,283	59.65%

The investments are reported by the District at fair value.

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	Nonmajor Governmental and Proprietary Funds	Total
Property taxes	\$ 458,824	\$ 124,844	\$	\$ 583,668
Due from other governments	1,161,950		678,923	1,840,873
Other	64,630		15,892	80,522
Gross receivables	1,685,404	124,844	694,815	2,505,063
Less allowance for doubtful accounts	(74,971)	(15,927)		(90,898)
Net total receivables	\$ 1,610,433	\$ 108,917	\$ 694,815	\$ 2,414,165

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 component of unearned revenues reported in the governmental funds was as follows:

	Unearned
Advanced collection of fees	<u>\$ 555,336</u>

Note 4 - Capital Assets

Capital asset activity for the year ended August 31, 2013, was as follows:

	Balance August 31, 2012	Additions	(Retirements) and Transfers	Balance August 31, 2013
Capital assets, not being depreciated				
Land	\$ 1,990,385	\$ 184,584	\$	\$ 2,174,969
Construction in progress	631,623	262,992	(631,623)	262,992
Total Capital assets, not being depreciated	2,622,008	447,576	(631,623)	2,437,961
Capital assets, being depreciated				
Buildings and improvements	138,338,314	290,812	627,060	139,256,186
Furniture and equipment	8,832,745	667,960	270	9,500,975
Assets under capital lease	144,417		(270)	144,147
Total Capital assets, being depreciated	147,315,476	958,772	627,060	148,901,308
Less accumulated depreciation for:				
Buildings and improvements	(36,918,495)	(5,035,378)	4,563	(41,949,310)
Furniture and Equipment	(4,031,276)	(671,299)		(4,702,575)
Assets under capital lease	(141,440)	(2,707)		(144,147)
Total Accumulated depreciation	(41,091,211)	(5,709,384)	4,563	(46,796,032)
Governmental Capital Assets	\$ 108,846,273	\$ (4,303,036)	\$	\$ 104,543,237

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	3,220,553
Instructional resources and media services	79,897
Curriculum and staff development	34,881
Instructional leadership	111,937
School leadership	298,063
Guidance, counseling and evaluation services	119,035
Social work services	138
Health services	56,697
Student transportation	206,952
Food Services	338,784
Extracurricular activities	207,847
General administration	255,085
Plant maintenance and operations	566,339
Security and monitoring services	21,684
Data processing services	122,495
Community services	68,997
	<u>\$ 5,709,384</u>

Construction Commitments

<u>Project</u>	<u>Approved Construction Budget</u>	<u>Construction in Progress</u>	<u>Remaining Commitment</u>
Security Doors	\$ 274,393	\$ 240,231	\$ 34,162
Annex Renovation	76,896	22,761	54,135
	<u>\$ 351,289</u>	<u>\$ 262,992</u>	<u>\$ 88,297</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.

During the fiscal year, \$3,157 was transferred from the nonmajor governmental fund to a general fund for unutilized grants from the Education Foundation. A transfer of \$10,379 in equipment was made to the general fund from a proprietary fund. A transfer of \$4,587 was made a nonmajor special revenue fund to the general fund to correct prior year College of the Mainland revenue. A transfer of \$25,587 was made from a proprietary fund to a nonmajor special revenue fund to allocate the vending net profit to individual campus/departments. In addition, a transfer from a proprietary fund to a nonmajor governmental fund in the amount of \$366 was necessary to cover amounts that were considered uncollectible at year end.

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

The composition of interfund balances as of August 31, 2013, is as follows:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>	<u>Net</u>
Governmental Funds			
General Fund	\$ 754,357	\$ 119,364	\$ 634,993
Debt Service Fund		106,265	(106,265)
Nonmajor Governmental Funds	117,720	646,448	(528,728)
Total Governmental Funds	<u>872,077</u>	<u>872,077</u>	
Total	<u>\$ 872,077</u>	<u>\$ 872,077</u>	<u>\$</u>

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. Compensation is based on the current substitute's daily rate. The rate of accrual depends on the position and length of work-day.

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

Balance, September 1, 2012	\$ 1,053,388
Deductions: Payments to participants	<u>(175,142)</u>
Balance, August 31, 2013	<u>\$ 878,246</u>

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, 2013, the legal debt limit was \$215,412,619 and the legal debt margin was \$102,945,807.

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, 2013.

Note 7 - Long-Term Liabilities (continued)

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, 2013 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 2006	\$ 5,590,554	3.78%	2/15/2017	\$ 1,405,000
Unlimited Tax Schoolhouse Bonds, Series 2008	96,750,000	4.00% to 5.00%	2/15/2037	96,590,000
Unlimited Tax Refunding Bonds, Series 2009	10,000,000	2.00% to 3.00%	2/15/2018	7,130,000
Unlimited Tax Refunding Bonds, Series 2012	4,190,000	3.00%	2/15/2022	4,190,000
				<u>\$ 109,315,000</u>

Debt service requirements to maturity are as follows:

<u>Year Ending August 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2014	\$ 1,870,000	\$ 5,137,987	\$ 7,007,987
2015	1,930,000	5,079,743	7,009,743
2016	1,990,000	5,016,146	7,006,146
2017	2,040,000	4,950,747	6,990,747
2018	3,555,000	5,093,613	8,648,613
2019-2023	20,495,000	21,653,290	42,148,290
2024-2028	21,750,000	16,623,065	38,373,065
2029-2033	27,860,000	10,509,988	38,369,988
2034-2037	27,825,000	2,869,375	30,694,375
	<u>\$ 109,315,000</u>	<u>\$ 76,933,954</u>	<u>\$ 186,248,954</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 2013. The values associated with the bonds are reflected in the table below:

<u>Series</u>	<u>Accreted Value</u>	<u>Principal</u>	<u>Accreted Interest</u>	<u>Maturity Value</u>	<u>Maturity Dates</u>
2012	\$ 316,730	\$ 100,000	\$ 216,730	\$ 335,000	2018

Note 7 - Long-Term Liabilities (continued)

Advanced Refunding

The District issued \$4,190,000 in general obligation bonds with the interest rate of 3.00%. The proceeds were used to advance refund \$4,195,000 of outstanding series 2006 and a portion of series 2008 general obligation bonds, which had interest rates ranging from 3.78% to 5.00%. The net proceeds of \$4,683,993 (including a \$486,495 premium and after payment of \$119,345 in underwriting fees and other issuance costs) were deposited in an irrevocable trust with an escrow agent to provide funds for the future debt service payment on the refunded bonds. As a result, the series 2006 and a portion of series 2008 bonds are considered defeased and the liability for those bonds has been removed from the statement of net position.

The reacquisition price exceeded the net carrying amount of the old debt by \$439,741. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt. Although resulting in an economic loss of \$204,045, the advanced refunding allowed the District to defer principal payments on the refunding bonds until fiscal year 2018.

Prior Years' Refunding of Long-Term Debt

In the current year 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, 2013, \$3,435,000 of previously refunded debt outstanding was considered defeased.

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, 2013:

	<u>Balance</u> <u>August 31, 2012</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>August 31, 2013</u>	<u>Due Within</u> <u>One Year</u>
General obligation bonds	\$ 111,019,978	\$ 4,190,000	\$ (5,894,978)	\$ 109,315,000	\$ 1,870,000
Premiums/discounts	3,082,170	486,495	(181,857)	3,386,808	
Accreted interest on premium compound interest bonds	135,956	216,730	(135,956)	216,730	3,973
Accrued compensated absences	1,053,388		(175,142)	878,246	148,729
	<u>\$ 115,291,492</u>	<u>\$ 4,893,225</u>	<u>\$ (6,387,933)</u>	<u>\$ 113,796,784</u>	<u>\$ 2,022,702</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 Fund</u>	<u>Capital Projects Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Property Taxes	\$ 22,714,373	\$ 7,113,754	\$	\$	\$ 29,828,127
Investment Income	67,266	7,640	7,223	19,340	101,469
Co-curricular student activities	440,705				440,705
Food Sales				2,125,589	2,125,589
Other	1,009,502			597,187	1,606,689
	<u>\$ 24,231,846</u>	<u>\$ 7,121,394</u>	<u>\$ 7,223</u>	<u>\$ 2,742,116</u>	<u>\$ 34,102,579</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, 2013. The imputed interest on the leases is not readily determinable.

Rental expenditures during the year amounted to \$206,480.

Note 10 - Pension Information

Plan Description: The District contributes to the Teacher Retirement System of Texas (TRS), a cost-sharing multiple-employer defined benefit pension plan. TRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of the employees of the public school systems of Texas. It operates primarily under the provisions of the Texas Constitution, Article XVI, Sec. 67, and Texas Government Code, Title 8, Subtitle C. TRS also administers proportional retirement benefits and service credit transfer under Texas Government Code, Title 8, Chapters 803 and 805, respectively. TRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report may be obtained by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701, by calling the TRS Communications Department at 1-800-223-8778, or by downloading the report from the TRS Internet website, www.trs.state.tx.us, under the TRS Publications heading.

Funding Policy: Contribution requirements are not actuarially determined but are established and amended by the Texas state legislature. The state funding policy is as follows: (1) the state constitution requires the legislature to establish a member contribution rate of not less than 6.0% of the member's annual compensation and a state contribution rate of not less than 6.0% and not more than 10% of the aggregate annual compensation of all members of the system; (2) a state statute prohibits benefit improvements or contribution reductions if, as a result of the particular action(s), the time required to amortize TRS's unfunded actuarial liabilities would be increased to a period that exceeds 31 years; or, (3) if the amortization period already exceeds 31 years, the period would be increased by such action. State law provides for a member contribution rate of 6.4% for fiscal years 2013, 2012, and 2011. The State contributed at a rate of 6.4% for fiscal year 2013 of all employees' eligible gross earnings, except for those staff members subject to statutory minimum requirements and those staff members being paid from and participating in federally funded programs. State statutes establish these rates.

Note 10 - Pension Information (continued)

The statutory minimum requirements are based on the State of Texas teacher schedules adjusted based on local tax rates. For staff members funded by federal programs, the federal programs are required to contribute 6.4% for fiscal year 2013, 6.0% for fiscal year 2012, and 6.64% for fiscal year 2011.

Contributions: Contributions made by the State, District, and staff members for the years ended August 31, 2013, 2012, and 2011 are as follows:

<u>For the Year Ended August 31</u>	<u>State TRS Contributions Made on Behalf of the District</u>	<u>District Required Contributions to TRS</u>	<u>Staff Members' Contributions to TRS</u>	<u>Covered Payroll</u>
2013	\$ 1,534,057	\$ 329,693	\$ 1,848,868	\$ 28,888,553
2012	1,339,651	320,886	1,783,775	27,442,128
2011	1,551,580	424,507	1,888,775	29,512,141

For the current fiscal year and each of the past two years, the District's actual 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.

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). TRS-Care Retired Plan provides health care coverage for certain persons (and their dependents) who retired under TRS. The statutory authority for the program is Texas Insurance Code, Chapter 1575. Section 1575 grants the TRS Board of Trustees the authority to establish and amend basic and optional group insurance coverage for participants. TRS issues a publicly available financial report that includes financial statements and required supplementary information for TRS-Care. That report may be obtained by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701, or by calling the TRS Communications Department at 1-800-223-8778, or by downloading the report from the TRS Internet website, www.trs.state.tx.us, under the TRS Publications heading.

The Texas Legislature determines the funding of benefits and has no continuing obligation to provide benefits beyond each fiscal year. Currently, the benefits of TRS-Care are financed through a combination of retiree premiums and percentage of payroll contributions from active employees, school districts, and the State of Texas.

Funding Policy: Contribution requirements are not actuarially determined but are legally established each biennium by the Texas legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. The State of Texas and active public school employee contribution rates were .5% and .65% of public school payroll, respectively, with school districts contributing a percentage of payroll set at .55% for fiscal years 2013, 2012, and 2011. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than .25% or greater than .75% of the salary of each active employee of the public school. For staff members funded by federal programs, the federal programs are required to contribute .5%.

Note 11 - Retiree Health Plan (continued)

Contributions made by the State, District, and staff members for the years ended August 31, 2013, 2012, and 2011 are as follows:

For the Year Ended August 31	State TRS Care Contributions Made on Behalf of the District	District Required Contributions to TRS Care	Staff Members' Contributions to TRS Care	Covered Payroll
2013	\$ 139,848	\$ 163,482	\$ 187,776	\$ 28,888,553
2012	263,580	164,129	181,163	27,442,128
2011	283,589	173,851	191,830	29,512,141

For the current fiscal year and each of the past two years, the District's actual 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, 2013, 2012, and 2011, the subsidy payments received by TRS-Care on-behalf of the District were \$73,918, \$71,767, and \$67,751 respectively. These payments are recorded as equal revenues and expenditures in the governmental funds financial statements of the District.

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

This temporary program is available to help employers continue to provide coverage to early retirees. ERRP reimbursement is available on a first come, first served basis for qualified employers that apply and become certified for the program. TRS has been certified for this program and has received funds from the ERRP program. These funds must be allocated to reporting agencies using the same basis as the Medicare Part D. For the fiscal years ended August 31, 2013 and August 31, 2012, the contribution made on behalf of the District was \$0 and \$67,868, respectively.

Note 12 - On-Behalf Payments

The amounts recognized for state revenues and expenditures for on-behalf payments relating to fringe benefits for the year ended August 31, 2013 was as follows:

Contributions to pension plan	\$ 1,534,057
Insurance contributions (TRS Care)	139,848
Insurance contributions (Medicare Part D)	73,918
	\$ 1,747,823

Note 13 - 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-Care 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 is solely responsible for all claims costs, both reported and unreported. The Fund provides administrative service to its self-funded members including claims administration and customer service.

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

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

Accordingly, claims are 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 includes 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, are another component of the claims liability estimate. An excess coverage insurance policy covers individual claims in excess of \$350,000 and annual losses exceeding \$1,000,000. There were no significant reductions in insurance coverage from the prior year. Settlements have not exceeded 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:

Fiscal Year	Beginning of Year Accrual	Change in Current Year Estimates	Claims Payments	End of Year Accrual	Current
2013	\$ 200,963	\$ 211,805	\$ (103,888)	\$ 308,880	\$ 20,231
2012	386,283	91,646	(276,967)	200,963	23,956

Note 14 - Shared Service Arrangements / Joint Ventures

The District participates in a shared services arrangement for Juvenile Justice Alternative Education Program with eight other school districts. Although 10.03 percent of the activity of the shared services arrangement is attributable to the District’s participation, the District does not account for revenues or expenditures in this program and does not disclose them in these financial statements. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, 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 shared services arrangement. Presented below are the revenues and expenditures attributable to the District’s participation.

Revenues:	
Local revenue	\$ 42,716
	<u>42,716</u>
Expenditures:	
Payroll costs	\$ 34,643
Contract services	7,386
Supplies and materials	675
Other operating costs	12
Total expenditures	<u>\$ 42,716</u>

The District participates in a shared services arrangement that provides a system of direct and support services to eligible hearing impaired students of member districts. Although 2.4 percent of the activity of the shared services arrangement is attributable to the District’s participation, the District does not account for revenues or expenditures in this program and does not disclose them in these financial statements. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, Clear Creek ISD, nor does the District have a net equity interest in the fiscal agent.

Revenues:	
Local revenue	\$ 23,255
	<u>23,255</u>
Expenditures:	
Payroll costs	\$ 18,846
Contract services	1,884
Supplies and materials	1,972
Other operating costs	553
Total expenditures	<u>\$ 23,255</u>

The District participates in the Energy for Schools shared services arrangement. Energy for Schools is a state electricity procurement cooperative with more than 99 member districts across the state. Member Districts are charged for their electric consumption at contracted rates. Although 1.7 percent of the shared services arrangement is attributable to the District’s participation, the District does not account for revenues or expenditures in this program and does not disclose them in the financial statements. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, Deer Park ISD, nor does the District have a net equity interest in the fiscal agent. Revenues attributable to the District’s participation were \$1,141,494. Expenditures in the same amount were attributable to contract services for energy costs.

Note 15 - 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 16 - 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, 2013.

Note 17 - 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 18 - Prior Period Adjustment

The District implemented GASB Statement 65, *Items Previously Reported as Assets and Liabilities*, during the fiscal year ended August 31, 2013. In accordance with GASB 65, debt issuance costs should be recognized as an expense in the period incurred. Previously, debt issuance costs were recorded as an asset and amortized over the life of the debt. The implementation of GASB 65 resulted in the following prior period adjustment to the net position of the governmental activities:

Net position - beginning of the year:	
As originally presented	\$ 10,206,766
Effect of change in accounting principle	<u>(834,582)</u>
As restated	<u><u>\$ 9,372,184</u></u>

In fiscal year 2012, the District reported net investment in capital assets of \$4,129,635 in the governmental activities. Although the total net position of the District was reported correctly, a portion of the net investment in capital assets was incorrectly reported as unrestricted. The correct amount of net investment in capital assets for fiscal year 2012 was negative \$1,569,754. Therefore, the current year decrease in net investment in capital assets is \$4,545,396.

REQUIRED SUPPLEMENTARY INFORMATION

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT

Exhibit G-1

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

For the Year Ended August 31, 2013

Data Control Codes		Budgeted Amounts		Actual Amounts, Budgetary Basis	Variance with Final Budget - Positive (Negative)
		Original	Final		
		Revenues			
5700	Local revenues	\$ 22,924,931	\$ 22,924,931	\$ 24,231,846	\$ 1,306,915
5800	State program revenues	14,448,713	14,448,713	15,899,429	1,450,716
5020	Total Revenues	37,373,644	37,373,644	40,131,275	2,757,631
Expenditures					
Current:					
0011	Instruction	22,784,017	22,461,840	22,296,459	165,381
0012	Instruction resources and media services	585,100	598,321	553,141	45,180
0013	development	47,225	259,879	241,485	18,394
0021	Instructional leadership	801,034	821,681	774,959	46,722
0023	School leadership	2,027,711	2,081,959	2,063,541	18,418
0031	Guidance, counseling and evaluation services	835,107	840,202	824,098	16,104
0032	Social work services	800	2,957	957	2,000
0033	Health services	428,204	405,182	392,524	12,658
0034	Student transportation	1,361,782	1,554,280	1,432,767	121,513
0035	Food services		3,316	852	2,464
0036	Extracurricular activities	1,465,374	1,505,213	1,438,958	66,255
0041	General administration	1,861,723	1,816,372	1,765,995	50,377
0051	Facilities maintenance and operations	4,098,010	4,124,874	3,919,248	205,626
0052	Security and monitoring services	152,000	182,397	151,742	30,655
0053	Data processing services	930,320	879,885	848,054	31,831
0061	Community services	24,856	290,384	284,891	5,493
Capital outlay:					
0081	Capital outlay		200,251	195,251	5,000
Intergovernmental:					
0093	Payments related to shared services arrangements	1,391,300	1,247,536	1,163,749	83,787
0095	Payments to Juvenile Justice Alternative Education Programs	41,800	50,000	42,716	7,284
0099	Other intergovernmental charges	265,000	226,669	221,669	5,000
6030	Total Expenditures	39,101,363	39,553,198	38,613,056	940,142
1100	Excess (deficiency) of revenues over expenditures	(1,727,719)	(2,179,554)	1,518,219	3,697,773
Other Financing Sources (Uses)					
7915	Transfers in			18,124	18,124
7080	Total other financing sources and uses			18,124	18,124
1200	Net change in fund balances	(1,727,719)	(2,179,554)	1,536,343	3,715,897
0100	Fund balances - beginning	10,014,394	10,014,394	10,014,394	
3000	Fund balances - ending	\$ 8,286,675	\$ 7,834,840	\$ 11,550,737	\$ 3,715,897

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 during the fiscal year ended August 31, 2013.

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, 2012. 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.

B. Expenditures in Excess of Appropriations

The District exceeded its debt service fund budget in the function for interest and fiscal agent fees in the amount of \$143,651 as a result of reimbursing the Texas Education Agency for a prior year overpayment of Existing Debt Allotment state aid and fees related to the current year refunding of previously issued debt.

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OTHER SUPPLEMENTARY INFORMATION

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT

COMBINING BALANCE SHEET

ALL NONMAJOR GOVERNMENTAL FUNDS

August 31, 2013

Data Control Codes		211	224	225
		ESEA Title I, Part A	IDEA-B Formula	IDEA-B Preschool Grant
	Assets			
1110	Cash and temporary investments	\$	\$	\$
	Receivables:			
1240	Receivables from other governments	73,427	390,472	7,573
1260	Due from other funds			
1290	Other receivables			
1410	Prepaid expenses			
1000	Total Assets	\$ 73,427	\$ 390,472	\$ 7,573
	Liabilities and Fund Balances			
	Liabilities:			
	Current Liabilities:			
2110	Accounts payable	\$ 14,610	\$ 2,677	\$
2160	Accrued wages payable	15,120		
2170	Due to other funds	43,697	387,795	7,573
2180	Due to other governments			
2300	Unearned revenues			
2000	Total Liabilities	73,427	390,472	7,573
	Fund Balances:			
	Restricted:			
3430	Prepaid items			
	Restricted:			
3450	Grant restrictions			
	Committed :			
3545	Other purposes			
3600	Unassigned			
3000	Total Fund Balances	73,427	390,472	7,573
4000	Total Liabilities and Fund Balances	\$ 73,427	\$ 390,472	\$ 7,573

226	240	244	255	263
<u>IDEA-B Discretionary</u>	<u>Child Nutrition</u>	<u>Vocational Ed -Basic</u>	<u>Title II, Part A</u>	<u>Title III</u>
\$	\$ 328,627	\$	\$	\$
96,786	117,720	5,000	44,927	8,043
	9,751			
<u>\$ 96,786</u>	<u>\$ 456,098</u>	<u>\$ 5,000</u>	<u>\$ 44,927</u>	<u>\$ 8,043</u>
\$	\$ 13,627	\$	\$ 875	\$
	4,733		300	
96,786		5,000	43,752	8,043
<u>96,786</u>	<u>18,360</u>	<u>5,000</u>	<u>44,927</u>	<u>8,043</u>
	437,738			
	<u>437,738</u>			
<u>\$ 96,786</u>	<u>\$ 456,098</u>	<u>\$ 5,000</u>	<u>\$ 44,927</u>	<u>\$ 8,043</u>

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT

COMBINING BALANCE SHEET

ALL NONMAJOR GOVERNMENTAL FUNDS

August 31, 2013

<u>Data Control Codes</u>	289	397	404
	Miscellaneous Federal Programs	Advanced Placement Incentive	Student Succ. Init- Acc REA
Assets			
1110	Cash and temporary investments	\$ 17,103	\$
Receivables:			
1240	Receivables from other governments		10,007
1260	Due from other funds		
1290	Other receivables		
1410	Prepaid expenses	300	
1000	Total Assets	<u>\$ 17,403</u>	<u>\$ 10,007</u>
Liabilities and Fund Balances			
Liabilities:			
Current Liabilities:			
2110	Accounts payable	\$	\$ 500
2160	Accrued wages payable		
2170	Due to other funds		9,507
2180	Due to other governments		
2300	Unearned revenues		
2000	Total Liabilities		<u>10,007</u>
Fund Balances:			
Restricted:			
3430	Prepaid items	300	
Restricted:			
3450	Grant restrictions	17,103	
Committed :			
3545	Other purposes		
3600	Unassigned		
3600	Total Fund Balances	<u>17,403</u>	
4000	Total Liabilities and Fund Balances	<u>\$ 17,403</u>	<u>\$ 10,007</u>

410	429	461	480	Total Nonmajor Governmental Funds
Instructional Materials Allotment	State Funded Special Revenue Fund	Campus Activity	Education Foundation Grants	
\$	\$	\$ 800,876	\$ 14,576	\$ 1,161,182
47,688				678,923
				117,720
		47	500	15,298
31,975				32,275
<u>\$ 79,663</u>	<u>\$</u>	<u>\$ 800,923</u>	<u>\$ 15,076</u>	<u>\$ 2,005,398</u>
\$ 15,137	\$	\$ 8,874	\$ 787	\$ 57,087
1,800				21,953
49,295				646,448
				5,000
13,431				13,431
<u>79,663</u>		<u>8,874</u>	<u>787</u>	<u>743,919</u>
31,975				32,275
			14,289	469,130
		792,049		792,049
(31,975)				(31,975)
		792,049	14,289	1,261,479
<u>\$ 79,663</u>	<u>\$</u>	<u>\$ 800,923</u>	<u>\$ 15,076</u>	<u>\$ 2,005,398</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, 2013

Data Control Codes	211	224	225
	ESEA Title I, Part A	IDEA-B Formula	IDEA-B Preschool Grant
Revenues			
5700	\$	\$	\$
5800			
5900	180,169	912,347	19,014
5020	Total Revenues	Total Revenues	Total Revenues
	180,169	912,347	19,014
Expenditures			
Current:			
0011	180,169	903,583	19,014
0012			
0013			
0021			
0023			
0031			
0033		8,764	
0034			
0035			
0036			
0041			
0051			
0052			
0053			
6030	Total Expenditures	Total Expenditures	Total Expenditures
1100			
Other Financing Sources (Uses)			
7915			
8911			
7080			
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)
	\$	\$	\$

226	240	244	255	263
<u>IDEA-B Discretionary</u>	<u>Child Nutrition</u>	<u>Vocational Ed - Basic</u>	<u>Title II, Part A</u>	<u>Title III</u>
\$	\$ 2,129,543	\$	\$	\$
	4,369			
96,786	185,303	29,561	68,275	13,613
<u>96,786</u>	<u>2,319,215</u>	<u>29,561</u>	<u>68,275</u>	<u>13,613</u>
15,939		29,561	37,999	11,753
			17,182	1,860
			12,258	
			790	
80,847				
	2,345,464			
			46	
<u>96,786</u>	<u>2,345,464</u>	<u>29,561</u>	<u>68,275</u>	<u>13,613</u>
	(26,249)			
	366			
	<u>366</u>			
	(25,883)			
	<u>463,621</u>			
<u>\$</u>	<u>\$ 437,738</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, 2013

Data Control Codes		289	397	404
		Miscellaneous Federal Programs	Advanced Placement Incentive	Student Succ. Init- Acc REA
	Revenues			
5700	Local, intermediate, and out-of-state	\$	\$	\$
5800	State program revenues			10,007
5900	Federal program revenues	1,115		
5020	Total Revenues	<u>1,115</u>		<u>10,007</u>
	Expenditures			
	Current:			
0011	Instruction	1,115		8,502
0012	Instruction resources and media services			
0013	Curriculum and instructional staff development		3,640	1,505
0021	Instructional leadership			
0023	School leadership			
0031	Guidance, counseling and evaluation services			
0033	Health services			
0034	Student transportation			
0035	Food service			
0036	Extracurricular activities			
0041	General administration			
0051	Plant maintenance and operations			
0052	Security and monitoring services			
0053	Data processing services			
6030	Total Expenditures	<u>1,115</u>	<u>3,640</u>	<u>10,007</u>
1100	Excess (deficiency) of revenues over expenditures		<u>(3,640)</u>	
	Other Financing Sources (Uses)			
7915	Transfers in			
8911	Transfers out			
7080	Total other financing sources and uses			
1200	Net change in fund balances		(3,640)	
0100	Fund balance - September 1 (beginning)		<u>21,043</u>	
3000	Fund balance - August 31 (ending)	<u>\$</u>	<u>\$ 17,403</u>	<u>\$</u>

410	429	461	480	Total Nonmajor Governmental Funds
Instructional Materials Allotment	State Funded Special Revenue Fund	Campus Activity	Education Foundation Grants	
\$ 363,851	\$ 52	\$ 465,851	\$ 146,722	\$ 2,742,116
<u>363,851</u>	<u>52</u>	<u>465,851</u>	<u>146,722</u>	<u>4,626,578</u>
357,263	52	448,944	139,905	2,153,747
2,160		7,941		34,288
520				12,778
3,908		4,913		9,611
		193		193
				89,611
		402		402
				2,345,464
		8,010		8,010
		2,268		2,268
		1,453		1,453
		1,792		1,792
				46
<u>363,851</u>	<u>52</u>	<u>475,916</u>	<u>139,905</u>	<u>4,659,715</u>
		(10,065)	6,817	(33,137)
		25,587		25,953
		(4,587)	(3,157)	(7,744)
		<u>21,000</u>	<u>(3,157)</u>	<u>18,209</u>
		10,935	3,660	(14,928)
		<u>781,114</u>	<u>10,629</u>	<u>1,276,407</u>
<u>\$</u>	<u>\$</u>	<u>\$ 792,049</u>	<u>\$ 14,289</u>	<u>\$ 1,261,479</u>

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF NET POSITION
NONMAJOR ENTERPRISE FUNDS
August 31, 2013

Exhibit H-3

Data Control Codes		Enterprise Funds		
		Fuel Fund	Vending Fund	Total
	Assets			
	Current assets:			
1110	Cash and cash equivalents	\$ 489	\$ 2,008	\$ 2,497
1290	Other receivables	594		594
	Total current assets	<u>1,083</u>	<u>2,008</u>	<u>3,091</u>
1000	Total Assets	<u>1,083</u>	<u>2,008</u>	<u>3,091</u>
	Net Position			
3900	Unrestricted net position	\$ 1,083	\$ 2,008	\$ 3,091
3000	Total Net Position	<u>\$ 1,083</u>	<u>\$ 2,008</u>	<u>\$ 3,091</u>

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT

Exhibit H-4

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

NONMAJOR ENTERPRISE FUNDS

For the Year Ended August 31, 2013

Data Control Codes	Fuel Fund	Vending Fund	Total
Revenues			
5700 Charges for Services	\$ 7,107	\$ 105,588	\$ 112,695
5020 Total Operating Revenues	<u>7,107</u>	<u>105,588</u>	<u>112,695</u>
Operating Expenses			
6100 Payroll costs		11,637	11,637
6200 Purchased and contracted services		65,476	65,476
6400 Claims expense and other operating expenses		2,521	2,521
6030 Total Operating Expenses	<u></u>	<u>79,634</u>	<u>79,634</u>
Income (Loss) before Transfers	7,107	25,954	33,061
Transfers			
8911 Transfers out	(10,379)	(25,954)	(36,333)
7080 Total Transfers	<u>(10,379)</u>	<u>(25,954)</u>	<u>(36,333)</u>
1200 Change in Net Position	(3,272)		(3,272)
Net Position			
0100 Total net position - beginning	<u>4,355</u>	<u>2,008</u>	<u>6,363</u>
3300 Total net position - ending	<u>\$ 1,083</u>	<u>\$ 2,008</u>	<u>\$ 3,091</u>

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT

Exhibit H-5

COMBINING STATEMENT OF CASH FLOWS

NONMAJOR ENTERPRISE FUNDS

Year Ended August 31, 2013

	734	740	
	<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	\$ 7,060	\$ 105,588	\$ 112,648
Cash payments to suppliers for goods and services		(67,997)	(67,997)
Cash payments to employees		(12,097)	(12,097)
Net Cash Provided by (Used for) Operating Activities	<u>7,060</u>	<u>25,494</u>	<u>32,554</u>
Cash Flows from Non-Capital Financing Activities:			
Advances to other funds	(10,379)	(25,954)	(36,333)
Net Cash Provided by (Used for) Non-Capital Financing Activities	<u>(10,379)</u>	<u>(25,954)</u>	<u>(36,333)</u>
Net Increase in Cash and Cash Equivalents	(3,319)	(460)	(3,779)
Cash and Cash Equivalents at Beginning of Year	<u>3,808</u>	<u>2,468</u>	<u>6,276</u>
Cash and Cash Equivalents at End of Year	<u>\$ 489</u>	<u>\$ 2,008</u>	<u>\$ 2,497</u>
Reconciliation to Balance Sheet			
Cash and Cash Equivalents Per Cash Flow	\$ 489	\$ 2,008	\$ 2,497
Cash and Cash Equivalents per Balance Sheet	<u>\$ 489</u>	<u>\$ 2,008</u>	<u>\$ 2,497</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:			
Operating Income (Loss)	\$ 7,107	\$ 25,954	\$ 33,061
Change in Assets and Liabilities			
Decrease (increase) in Receivables	(47)		(47)
Increase (decrease) in Accrued Wages Payable		(460)	(460)
Net Cash Provided by (Used for) Operating Activities	<u>\$ 7,060</u>	<u>\$ 25,494</u>	<u>\$ 32,554</u>

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF FIDUCIARY NET POSITION
 August 31, 2013

Exhibit H-6

Data Control Codes		891	892	
		Cline Scholarship Fund	Winston Scholarship Fund	Total Private Purpose Trust Funds
	Assets			
1110	Cash and cash equivalents	\$ 1,732	\$ 6,296	\$ 8,028
	Total Assets	<u>\$ 1,732</u>	<u>\$ 6,296</u>	<u>\$ 8,028</u>
	Net Position			
3800	Restricted	<u>\$ 1,732</u>	<u>\$ 6,296</u>	<u>\$ 8,028</u>

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
For the Year Ended August 31, 2013

Exhibit H-7

	891	892	
	Cline Scholarship	Winston Scholarship	Total
Deductions			
Non-operating expenses	\$	\$ 2,000	\$ 2,000
Total deductions		<u>2,000</u>	<u>2,000</u>
Change in net assets		(2,000)	(2,000)
Net position beginning of year	<u>1,732</u>	<u>8,296</u>	<u>10,028</u>
Net position end of year	<u>\$ 1,732</u>	<u>\$ 6,296</u>	<u>\$ 8,028</u>

REQUIRED TEA SCHEDULES

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF DELINQUENT TAXES RECEIVABLE

For the Year Ended August 31, 2013

<u>Last Ten Fiscal Years</u>	<u>Tax Rates</u>		<u>Net Assessed/Appraised Value For School Tax Purposes</u>	<u>10 Beginning Balance 8/31/12</u>
	<u>1</u>	<u>2</u>		
	<u>Maintenance</u>	<u>Debt Service</u>		
2004 and prior	Various	Various	Various	\$ 18,796
2005	\$ 1.500000	\$ 0.137000	1,457,665,058	5,717
2006	1.500000	0.137000	1,529,840,326	11,508
2007	1.370000	0.137000	1,624,895,916	17,479
2008	1.040000	0.137000	1,789,587,724	15,962
2009	1.040000	0.327000	1,956,333,264	50,609
2010	1.040000	0.327000	1,974,337,088	70,470
2011	1.040000	0.327000	1,974,337,088	89,018
2012	1.040000	0.327000	2,052,922,970	244,005
2013	1.040000	0.327000	2,154,126,189	
1000 Totals				<u><u>\$ 523,564</u></u>

Exhibit J-1

20	31	32	40	50
<u>Current Year's Total Levy</u>	<u>Maintenance Total Collections</u>	<u>Debt Service Total Collections</u>	<u>Entire Year's Adjustments</u>	<u>Ending Balance 8/31/13</u>
\$	\$ 516	\$ 53	\$ (5,748)	\$ 12,479
	1,050	96	(483)	4,088
	582	53	(1,141)	9,732
	5,134	513	(1,327)	10,505
	3,855	508	(987)	10,612
	19,326	6,077	(5,326)	19,880
	14,395	4,526	(4,752)	46,797
	22,086	6,944	(9,202)	50,786
	140,089	44,047	2,885	62,754
<u>29,446,905</u>	<u>22,260,695</u>	<u>6,999,276</u>		<u>186,934</u>
<u>\$ 29,446,905</u>	<u>\$ 22,467,728</u>	<u>\$ 7,062,093</u>	<u>\$ (26,081)</u>	414,567
				<u>169,101</u>
				<u>\$ 583,668</u>

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES FOR COMPUTATION OF
INDIRECT COSTS FOR 2014-2015
GENERAL AND SPECIAL REVENUE FUNDS
For the Year Ended August 31, 2013

Exhibit J-2

FUNCTION 41 AND RELATED FUNCTION 53 - GENERAL ADMINISTRATION AND FUNCTION 99 (APPRAISAL DISTRICT COSTS)

Account Number	Account Name	1 (702) School Board	2 (703) Tax Collection	3 (701) Supt's Office	4 (750) Indirect Cost	5 (720) Direct Cost	6 (other) Miscellaneous	7 Total
611X-6146	PAYROLL COSTS		\$85,137	\$ 295,311	\$ 768,605	\$ 67,657	\$ 158,436	\$ 1,375,146
6149	Fringe Benefits Terminal Leave Only for Separating Employees in Function 41 and Related 53)							
6149	Fringe Benefits Terminal Leave Only for Separating Employees in all Functions except Function 41 and Related 53)							
6211	Legal Services	80,736						80,736
6212	Audit Services				59,800			59,800
6213	Tax Appraisal and Collection (Appraisal district costs <u>only</u> from function 99)		225,749					225,749
6214	Lobbying							
621X	Other Prof. Services		14,640		14,440	200		29,280
6220	Tuition and Transfer Payments							
6230	Education Service Centers							
6240	Contr. Maint. and Repair							
6250	Utilities							
6260	Rentals		4,413		6,374			10,787
6290	Miscellaneous Contr.	12,000	72	3,665	37,454	3,372		56,563
6320	Textbooks and Reading	250						250
6330	Testing Materials							
63XX	Other Supplies Materials	5,052	7,922	7,878	19,475	4,561		44,888
6410	Travel, Subsistence, Stipends	5,648	897	6,292	13,697	486		27,020
6420	Ins. and Bonding Costs		250	15161				15,411
6430	Election Costs							
6490	Miscellaneous Operating	8,440		24,927	15,935	14,626	374	64,302
6500	Debt Service							
6600	Capital Outlay							
6000	TOTAL	\$ 112,126	\$ 339,080	\$ 353,234	\$ 935,780	\$ 90,902	\$ 158,810	\$ 1,989,932

Total expenditures/expenses for General and Special Revenue Funds
 (plus Food Service Enterprise Fund if present) 9 \$ 43,272,771

Less: Deductions of Unallowable Costs

Fiscal Year

Total Capital Outlay (6600)	10	\$ 433,071
Total Debt & Lease (6500)	11	
Plant Maintenance (Function 51, 6100-6400)	12	3,920,701
Food (Function 35, 6341 and 6499)	13	
Stipends (6413)	14	
Column 4 (above) - Total Indirect Cost		935,780
Subtotal:		5,289,552
Net Allowed Direct Cost		\$ 37,983,219

Cumulative

Total Cost of Buildings before Depreciation (1520)	15	\$ 139,256,186
Historical Cost of Buildings over 50 years old	16	\$340,807
Amount of Federal Money in building Cost (Net of #16)	17	
Total Cost of Furniture & Equipment before Depreciation (1530&1540)	18	9,500,975
Historical Cost of Furniture & Equipment over 16 years old	19	1,005,193
Amount of Federal Money in Furniture & Equipment (Net of #19)	20	

(8) Note A - \$0
 \$221,669

in Function 53 expenditures directly related to Function 41 only are included in this report on administrative costs.
 in Function 99 expenditures directly related to appraisal district costs are included in this report.

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE
CHILD NUTRITION PROGRAM FUND
For the Year Ended August 31, 2013

Exhibit J-4

Data Control Codes		Budget		Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negaative)
		Original	Final		
	Revenues				
5700	Local, Intermediate, and Out-of-State	\$ 2,337,961	\$ 2,337,961	\$ 2,129,543	\$ (208,418)
5800	State Program Revenues	5,000	5,000	4,369	(631)
5900	Federal Program Revenues	178,378	178,378	185,303	6,925
5020	Total Revenues	<u>2,521,339</u>	<u>2,521,339</u>	<u>2,319,215</u>	<u>(202,124)</u>
	Expenditures				
	Current:				
0035	Food Services	2,468,246	2,545,933	2,345,464	200,469
6030	Total Expenditures	<u>2,468,246</u>	<u>2,545,933</u>	<u>2,345,464</u>	<u>200,469</u>
1100	Excess (Deficiency) Revenues Over Expenditures	<u>53,093</u>	<u>(24,594)</u>	<u>(26,249)</u>	<u>(1,655)</u>
	Other Financing Sources (Uses)				
7915	Transfers in			366	366
	Total Other Financing Sources (Uses)			<u>366</u>	<u>366</u>
1200	Increase (Decrease) in Fund Balance	53,093	(24,594)	(25,883)	(1,289)
0100	Fund Balance - September 1 (Beginning)	<u>463,621</u>	<u>463,621</u>	<u>463,621</u>	
3000	Fund Balance - August 31 (Ending)	<u>\$ 516,714</u>	<u>\$ 439,027</u>	<u>\$ 437,738</u>	<u>\$ (1,289)</u>

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT

Exhibit J-5

BUDGETARY COMPARISON SCHEDULE

DEBT SERVICE FUND

For the Year Ended August 31, 2013

Data Control Codes		Budget		Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
		Original	Final		
	Revenues				
5700	Local, Intermediate, and Out-of-State	\$ 6,995,436	\$ 6,995,436	\$ 7,121,394	\$ 125,958
5020	Total Revenues	<u>6,995,436</u>	<u>6,995,436</u>	<u>7,121,394</u>	<u>125,958</u>
	Expenditures				
	Debt Service:				
0071	Principal	2,459,978	1,699,978	1,699,978	
0072	Interest and Fiscal Agent Fees	5,353,862	5,316,501	5,460,152	(143,651)
6030	Total Expenditures	<u>7,813,840</u>	<u>7,016,479</u>	<u>7,160,130</u>	<u>(143,651)</u>
1100	Excess (Deficiency) Revenues Over Expenditures	<u>(818,404)</u>	<u>(21,043)</u>	<u>(38,736)</u>	<u>(17,693)</u>
	Other Financing Sources (Uses)				
7901	Refunding bonds issued			4,190,000	4,190,000
7916	Premium on issuance of bonds			486,495	486,495
7917	Prepaid interest			7,498	7,498
8949	Payment to Bond Refunding Escrow Agent			(4,564,648)	(4,564,648)
	Total Other Financing Sources (Uses)			<u>119,345</u>	<u>119,345</u>
1200	Increase (Decrease) in Fund Balance	(818,404)	(21,043)	80,609	101,652
0100	Fund Balance - September 1 (Beginning)	<u>371,117</u>	<u>371,117</u>	<u>371,117</u>	
3000	Fund Balance - August 31 (Ending)	<u>\$ (447,287)</u>	<u>\$ 350,074</u>	<u>\$ 451,726</u>	<u>\$ 101,652</u>

FEDERAL AWARDS SECTION

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

To the Board of Trustees
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, 2013, and the related notes to the financial statements, which collectively comprise District’s basic financial statements, and have issued our report thereon dated November 11, 2013.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item #2013-001.

The District's Response to Finding

The District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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, flowing style.

Texas City, Texas
November 11, 2013

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY OMB CIRCULAR A-133**

To the Board of Trustees
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 Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended August 31, 2013. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the 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, 2013.

Report on Internal Control Over Compliance

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

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

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

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



Texas City, Texas
November 11, 2013

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended August 31, 2013

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 section 510(a) OMB Circular A-133?	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
IDEA - Part B, High Cost Risk Pool	84.027A
Dollar Threshold Considered Between Type A and Type B Federal Programs	\$300,000
Auditee qualified as low-risk auditee?	Yes

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
For the Year Ended August 31, 2013

II. Financial Statement Findings

Compliance and Other Matters

Finding #2013-001

Condition: The District's deposits were not fully collateralized at August 31, 2013.

Criteria: Per Texas Government Code Chapter 2257, *Collateral for Public Funds*, and as described by Section 45.201 (4) (D), of the Texas Education Code, to secure a deposit of public funds of a school district, the pledged collateral must be an amount not less than 110 percent of the amount of the deposit.

Cause: At August 31, 2013, the District's deposits were under collateralized in the amount of \$1,193,652.

Effect: The District is subject to custodial credit risk, which is the risk that in the event of a bank failure, the District's deposits may not be returned on the uncollateralized portion of deposits.

Recommendation: The District should implement controls over the monitoring of pledged collateral.

III. Federal Awards Findings and Questioned Costs

None Reported

IV. Summary Schedule of Prior Audit Findings

Finding #	Corrective Action Taken
Finding 12-01: Maintenance of Effort	Resolved; the District maintained fiscal effort for special education in fiscal year 2013.

V. Corrective Action Plan

Finding:	Corrective Action Plan	Contact Person	Estimated Completion Date
The District's deposits were not fully collateralized at August 31, 2013	The District met with depository bank to ensure adequate monitoring of collateral for its deposits. The CFO will review monthly collateral reports and communicate with the Collateral Department at Wells Fargo to maintain appropriate levels of collateral as required by law.	(a)	(b)

- (a) Connie Morgenroth, CFO
- (b) Completed as of the date of this report

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT

Exhibit K-1

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended August 31, 2013

(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:				
13610101084911	<i>ESEA Title I Part A</i>	211	84.010A	\$ 180,169
136600010849116000	<i>IDEA - Part B, Formula *</i>	224	84.027A	912,347
136610010849116000	<i>IDEA - Part B, Preschool *</i>	225	84.173A	19,014
13660006084911	<i>IDEA - Part B, High Cost Risk Pool *</i>	226	84.027A	96,786
13420006084911	<i>Career and Technology Education - Carl D. Perkins</i>	244	84.048A	29,561
13694501084911	<i>ESEA Title II, Part A, Teacher/Principal Training</i>	255	84.367A	68,275
13671001084911	<i>Title III - Part A, English Language Acquisitions</i>	263	84.365A	13,613
69551202	<i>Summer School LEP</i>	289	84.369A	1,115
Total U.S. Department of Education				1,320,880
U.S. Department of Agriculture				
Passed Through the Texas Department of Agriculture				
Non Cash Assistance (Commodities):				
71301301	<i>National School Lunch Program**</i>	240	10.555	42,715
Passed Through Texas Education Agency				
Cash Assistance:				
71301301	<i>National School Lunch Program **</i>	240	10.555	133,223
71401301	<i>School Breakfast Program **</i>	240	10.553	9,365
Total U.S. Department of Agriculture				185,303
Total Expenditures of Federal Awards				\$ 1,506,183

*Special Education Cluster

** Child Nutrition Cluster

Note 1 -Basis of Accounting

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

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

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

Note 2 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of the District under programs of the federal government for the year ended August 31, 2013. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Government, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net position or cash flows of the District.

Note 3 - Reconciliation to Basic Financial Statements

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

Total expenditures of federal awards per SEFA	<u>\$ 1,506,183</u>
Related expenditures on Exhibit C-3	
Special Revenue Funds	<u>\$ 1,506,183</u>

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
REQUIRED RESPONSES TO SELECTED SCHOOL FIRST INDICATORS
SCHEDULE L-1
For the year ended August 31, 2013

SF2	Were there any disclosures in the Annual Financial Report and/or other sources of information concerning default on bonded indebtedness obligations?	No
SF4	Did the district receive a clean audit? Was there an unmodified opinion in the Annual Financial Report?	Yes
SF5	Did the Annual Financial Report disclose any instances of material weaknesses in internal controls?	No
SF9	Was there any disclosure in the Annual Financial Report of material noncompliance?	No
SF10	Total accumulated accretion on capital appreciation bonds included in government-wide financial statements at fiscal year-end.	<u>\$ 216,730</u>

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