

**FRIENDSWOOD INDEPENDENT
SCHOOL DISTRICT**

**ANNUAL FINANCIAL AND
COMPLIANCE REPORT**

For The Year Ended August 31, 2011



2000 Loop 197 N., Suite 200
Texas City, Texas 77590
(409) 948-4406

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
TABLE OF CONTENTS

	<u>Page</u>	<u>Exhibit</u>
Certificate Of The Board	i	
Financial Section		
Independent Auditors' Report	1	
Management Discussion and Analysis	5	
Basic Financial Statements:		
Government-wide Financial Statements		
Statement of Net Assets	16	A-1
Statement of Activities	17	B-1
Governmental Fund Financial Statements		
Balance Sheet	18	C-1
Reconciliation of Balance Sheet for Governmental Funds to Statement of Net Assets	21	C-2
Statement of Revenues, Expenditures, and Changes In Fund Balances	22	C-3
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	25	C-4
Proprietary Fund Financial Statements		
Statement of Net Assets	26	D-1
Statement of Revenues, Expenses, and Changes In Fund Net Assets	27	D-2
Statement of Cash Flows	28	D-3
Fiduciary Fund Financial Statements		
Statement of Fiduciary Net Assets	29	E-1
Statement of Changes In Fiduciary Net Assets	30	E-2
Notes to the Financial Statements	31	F-1
Required Supplementary Information:		
Budgetary Comparison Schedule - General Fund	52	G-1
Notes to Required Supplementary Information	53	G-2
Other Supplementary Information:		
Combining Fund Statements:		
Non-major Governmental Funds:		
Combining Balance Sheet	56	H-1
Combining Statement of Revenues, Expenditures, and Changes In Fund Balance	62	H-2
Fiduciary Funds:		
Agency Funds:		
Combining Statement of Fiduciary Net Assets	68	H-3
Combining Statement of Changes in Fiduciary Net Assets	69	H-4

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
TABLE OF CONTENTS (continued)

	<u>Page</u>	<u>Exhibit</u>
Financial Section (continued)		
Required TEA Schedules		
Schedule of Delinquent Taxes Receivable	72	J-1
Schedule of Expenditures For Computations of Indirect Costs For 2011-2012	74	J-2
Budgetary Comparison Schedule - Child Nutrition Program Fund	75	J-4
Budgetary Comparison Schedule - Debt Service Fund	76	J-5
Federal Awards Section		
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	79	
Independent Auditors' Report on Compliance with Requirements that Could have a Direct and Material Effect on each Major Program and on Internal Control over Compliance in Accordance with <i>OMB Circular A-133</i>	81	
Schedule of Findings and Questioned Costs	83	
Schedule of Expenditures of Federal Awards	86	K-1
Notes to Schedule of Expenditures of Federal Awards	87	K-2

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, 2011, at a meeting of the board of trustees of such school district on November 14, 2011.



President of the Board



Vice President of the Board

Financial Section



Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental 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, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of August 31, 2011, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 11, 2011, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of law, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 5 to 13 and pages 52 through 53 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The combining and individual fund financial statements and required Texas Education Agency ("the TEA") schedules are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the financial statements. The combining and individual fund financial statements, required TEA schedules, 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



Texas City, Texas
November 11, 2011

Management's Discussion and Analysis

(This page intentionally left blank.)

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Friendswood Independent School District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended August 31, 2011.

Financial Highlights

The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$13,926,663. Of this amount, \$9,901,365 may be used to meet the District's ongoing obligations to students and creditors.

- The District's total net assets decreased by \$4,132,339 during the current fiscal year.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$21,029,346, a decrease of \$12,102,456 in comparison with the prior year. The decrease in governmental fund balances was primarily due to the construction of facilities in the capital projects fund.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$6,905,901, or 18% of total general fund expenditures.
- The District's bonded debt decreased by \$2,525,000 during the current fiscal year.

Overview of the Financial Statements

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

Government-wide Financial Statements

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

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

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

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.

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

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 non-major governmental funds is provided in the form of combining statements elsewhere in the financial statements. The District adopts an annual appropriated budget for its general fund, debt service fund, and National School Breakfast and Lunch Program special revenue fund.

Proprietary Fund

The District maintains individual internal service funds for health insurance and 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.

Proprietary fund statements provide the same type of information as the government-wide financial statements, only in more detail. The internal service fund financial statements provides information for the Workers Compensation Fund.

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

Fiduciary Fund

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 statement 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.

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.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a District's financial position. In the case of the District, assets exceeded liabilities by \$13,926,663 at the close of the most recent fiscal year.

A significant portion of the District's net assets 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.

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

	Governmental Activities	
	2011	2010
Current and other assets	\$ 27,222,538	\$ 43,695,357
Capital and non current assets	108,922,821	103,067,261
Total Assets	136,145,359	146,762,618
Current liabilities	4,209,503	8,163,422
Long term liabilities	118,009,193	120,540,194
Total Liabilities	122,218,696	128,703,616
Net Assets:		
Invested in capital assets net of related debt	1,580,773	5,483,161
Restricted	2,444,525	3,457,678
Unrestricted	9,901,365	9,118,163
Total Net Assets	\$ 13,926,663	\$ 18,059,002

Net assets are restricted for various purposes as follows:

	Governmental Activities	
	2011	2010
Federal and state programs	\$ 81,973	\$ 113,968
Food Service	382,090	263,701
Debt Service	1,215,010	2,236,157
Campus Activities	765,452	843,852
	\$ 2,444,525	\$ 3,457,678

The remaining balance of unrestricted net assets \$9,901,365 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 all three categories of net assets. The District's net assets decreased by \$4,132,339 during the current fiscal year.

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

Comparative Schedule of Changes in Net Assets

	Governmental Activities	
	2011	2010
Program Revenues		
Charges for services	\$ 3,476,859	\$ 2,932,313
Operating grants	5,630,127	5,836,404
General Revenues		
Property taxes	28,521,003	27,853,161
State Aid - Formula Grants	14,326,369	14,146,292
Grants and contributions not restricted	127,892	104,285
Interest earnings	138,073	264,366
Other	49,202	761,494
Total Revenues	<u>52,269,525</u>	<u>51,898,315</u>
Expenses		
Instruction	29,151,377	27,695,110
Instructional resources and media services	646,002	842,654
Curriculum and staff development	118,517	75,676
Instructional leadership	899,318	876,375
School leadership	2,621,837	2,344,332
Guidance, counseling, and evaluation services	1,016,608	929,372
Social work services	33	71,308
Health services	567,395	498,225
Student transportation	1,536,428	1,402,373
Food service	2,558,404	2,227,706
Extracurricular activities	1,741,736	1,620,382
General administration	2,186,872	2,060,475
Plant, maintenance and operations	4,489,161	3,287,764
Security and monitoring services	154,609	117,802
Data processing services	1,631,979	2,418,254
Community services	186,843	153,363
Interest on long-term debt	5,294,655	5,555,968
Debt issuance costs and fees	1,800	(574)
Facilities acquisition and construction	706	105,814
Payments related to shared services arrangements	1,334,665	1,091,684
Payments to Juvenile Justice Alternative Education Programs	27,873	17,882
Other governmental charges	237,068	155,672
Total Expenses	<u>56,403,886</u>	<u>53,547,617</u>
Excess (deficiency) before special items and transfers	<u>(4,134,361)</u>	<u>(1,649,302)</u>
<i>Special item</i> - gain on sale of asset	2,022	
Increase (Decrease) in Net Assets	<u>(4,132,339)</u>	<u>(1,649,302)</u>
Beginning net assets	18,059,002	19,747,779
Prior Period Adjustment		(39,475)
Ending Net Assets	<u><u>\$ 13,926,663</u></u>	<u><u>\$ 18,059,002</u></u>

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

Governmental Activities

Governmental activities decreased the District's net assets by \$4,132,339. Revenues are generated primarily from three sources. Property taxes, state-aid formula grants, and operating grants and contributions represent 92.7 percent of total revenues. The remaining 7.3 percent is generated from charges for services, investment earnings, and miscellaneous revenues.

	Total Revenues	% of Total Revenues
Property taxes	\$ 28,521,003	55%
State Aid - Formula Grants	14,326,369	27%
Operating grants and contributions	5,758,019	11%
Other revenue	3,666,156	7%
Total Revenues	\$ 52,271,547	100%

The primary functional expenses of the District are instruction and interest on long-term debt, which represents 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	\$ 29,151,377	52%
Interest on long-term debt	5,294,655	9%
Other expenses	21,957,854	39%
Total Expenses	\$ 56,403,886	100%

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 \$21,029,346, a decrease of \$12,102,456 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 \$6,905,901, while total fund balance reached \$9,946,805. 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 \$1,282,842, while total general fund expenditures showed an increase of \$213,624.

The debt service fund has a total fund balance of \$1,341,256, all of which is restricted for the payment of debt service. The net decrease in the debt service fund balance during the current year of \$1,046,540 was in line with budgeted expectations.

The capital projects fund has a total fund balance of \$8,549,308, all of which is restricted for authorized construction and technology projects/enhancements. The net decrease in fund balance during the current year of \$12,309,214 was due to the construction of new 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:

	<u>Budget</u>	
	<u>Original</u>	<u>Final Amended</u>
Total revenues	\$ 39,108,784	\$ 39,108,784
Total expenditures	39,479,559	41,226,247
Net change in fund balance	<u>\$ (370,775)</u>	<u>\$ (2,117,463)</u>

Capital Assets and Long-Term Liabilities

Capital Assets

The District's investment in capital assets for its governmental type activities as of August 31, 2011, 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 \$11,095,548. The following table summarizes the investment in capital assets as of August 31, 2011 and 2010.

	<u>2011</u>	<u>2010</u>
Land	\$ 1,990,385	\$ 1,990,385
Buildings and improvements	136,406,032	52,388,635
Furniture and equipment	6,183,360	4,873,920
Leased assets under capital lease	144,147	144,147
Construction in progress	232,642	74,627,928
Total	<u>144,956,566</u>	<u>134,025,015</u>
Accumulated depreciation	<u>(36,033,745)</u>	<u>(30,957,753)</u>
Net capital assets	<u>\$ 108,922,821</u>	<u>\$ 103,067,262</u>

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 \$113,589,978 in bonded debt outstanding, a decrease of \$2,525,000 over the previous year. The District's bonds are sold with a "AAA" rating and are guaranteed through the Texas Permanent School Fund Guarantee Program or by a municipal bond insurance policy. The underlying rating of the bonds from Standard and Poor's is "A+" and from Moody's Investors Service is "Aa2" for general obligation debt.

Changes in long-term debt, for the year ended August 31, 2011, are as follows:

Outstanding 09/01/10	Issued	Retired	Outstanding 08/31/11
<u>\$ 116,114,978</u>	<u>\$</u>	<u>\$ (2,525,000)</u>	<u>\$ 113,589,978</u>

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

- The Tax Rate for 2011-2012 is \$1.367 (\$1.04 for M&O; \$.327 for I&S). The legislature set the maximum M&O tax rate at \$1.00 but gave districts the option to assess four additional cents, which FISD has passed. These four additional pennies have been referred to as "super pennies"
- Operating Expenses per student is \$6,235 for 2011-2012 based on the general operating budget.
- The District's 2011-2012 refined average daily attendance is budgeted to be 5,710 and increase of 0% from the previous year.

These indicators were taken into account when adopting the budget for 2011-2012. The General Operating Friendswood Independent School District adopted budget for 2011-2012 is \$37,463,920.

Expenditures are budgeted to decrease 5% to 37.4 million.

In 2009-2010 HB 3646 required all school districts to increase base pay for teachers, nurses, libraries, counselors, and speech pathologists by a minimum of the higher of \$80/month or \$60/WADA and an additional step according to any published schedule by the district. This mandate required Friendswood ISD to raise each teacher's pay by a minimum of \$1,010 annually plus an additional step which ranged anywhere from \$100 to \$1,105. Along with this bill a ruling was made mandating an additional step increase for the above listed positions for the 2010-2011 year. This increase ranged from \$500 to \$1,105 annually. All other employees received a 1% raise not to exceed \$500 for the 2010-2011 year. No cost of living adjustments were given for the 2011-2012 year.

Due to an anticipated shortfall in funding, a reduction in force (RIF) was declared in an attempt to reduce expenditures. This RIF provided approximately \$1,500,000 in savings throughout the District in payroll expenses.

Also, in an effort to reduce expenditures, the zero based budgeting method was implemented to create the 2011-2012 budget. This budgeting method led to a decrease in expenditures in areas other than payroll of \$695,000.

The increase in expenditures due to a \$400,000 increase in windstorm premium, \$477,000 due to eliminated state/federal funding, and approximately \$190,000 in increased operating expenses such as fuel, professional service fees, and utilities.

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

Over \$2.1 million was cut out of 2011-2012 budgeted expenditures. After adding back in unavoidable operational expenditure increases, the net is a budget that has been reduced by approximately \$1.1 million.

Residential and commercial new property development is the primary source of expected value increase for Friendswood ISD tax levy. For the 2011 tax year values are expected to increase by approximately 1%.

The new Friendswood Junior High building, additions and renovations to Friendswood High School, and the natatorium were all completed for the opening of the 2010-2011 school year. The old junior high building has been renovated to house the Friendswood Tax Office, Special Education Department, Community Education Department, Technology Services, and Food Service Department. The stadium, baseball, and softball field renovations have also been completed. A new addition to the Ag Barn is underway and scheduled to be completed during the fall of 2011.

Requests for Information

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional information, contact the District's Business Office at Friendswood Independent School District, 302 Laurel Drive, Friendswood, TX 77546.

(This page intentionally left blank.)

Basic Financial Statements

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT

Exhibit A-1

STATEMENT OF NET ASSETS

August 31, 2011

<u>Data Control Codes</u>		<u>Governmental Activities</u>
	Assets	
1110	Cash and cash equivalents	\$ 24,275,152
1225	Property taxes receivables, net	666,274
1240	Due from other governments	1,045,399
1267	Due from fiduciary funds	20,000
1290	Other receivables, net	143,847
1300	Inventories	170,904
1420	Capital bond and other debt issuance costs	900,962
	Capital assets not subject to depreciation:	
1510	Land	1,990,385
1580	Construction in progress	232,639
	Capital assets net of depreciation:	
1520	Buildings and improvements, net	104,717,714
1530	Furniture and equipment, net	1,837,666
1550	Capital lease assets, net	144,417
1000	Total Assets	<u>136,145,359</u>
	Liabilities	
2110	Accounts payable	979,061
2140	Interest payable	230,132
2150	Payroll deductions and withholdings	3,766
2160	Accrued wages payable	2,108,336
2300	Unearned revenue	547,968
2400	Payable from restricted assets	340,240
	Noncurrent Liabilities:	
2501	Due within one year	2,570,000
2502	Due in more than one year	115,439,193
2000	Total Liabilities	<u>122,218,696</u>
	Net Assets	
3200	Invested in capital assets, net of related debt	1,580,773
	Restricted for:	
3820	Federal and state programs	81,973
3840	Food service	382,090
3850	Debt service	1,215,010
3870	Campus activities	765,452
3900	Unrestricted	9,901,365
3000	Total Net Assets	<u>\$ 13,926,663</u>

See Notes to the Financial Statements

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
For the Year Ended August 31, 2011

Exhibit B-1

Data Control Codes	Functions/Programs	Expenses	Program Revenue		Net (Expense) Revenue and Changes in Net Assets
			Charges for Services	Operating Grants and Contributions	Primary Governmental Governmental Activities
	Governmental activities:				
11	Instruction	\$ 29,151,377	\$ 418,425	\$ 4,075,254	\$ (24,657,698)
12	Instructional resources and media services	646,002		29,445	(616,557)
13	Curriculum and staff development	118,517		56,935	(61,582)
21	Instructional leadership	899,318		225,483	(673,835)
23	School leadership	2,621,837		219,200	(2,402,637)
31	Guidance, counseling, and evaluation	1,016,608		52,238	(964,370)
32	Social work services	33			(33)
33	Health services	567,395		130,400	(436,995)
34	Student transportation	1,536,428		115,121	(1,421,307)
35	Food service	2,558,404	2,115,266	194,758	(248,380)
36	Extracurricular activities	1,741,736	815,969	97,528	(828,239)
41	General administration	2,186,872	1,614	231,518	(1,953,740)
51	Plant, maintenance and operations	4,489,161	125,585	113,357	(4,250,219)
52	Security and monitoring services	154,609			(154,609)
53	Data processing services	1,631,979		84,868	(1,547,111)
61	Community services	186,843		4,022	(182,821)
72	Interest on long-term debt	5,294,655			(5,294,655)
73	Debt issuance costs and fees	1,800			(1,800)
81	Facilities acquisition and construction	706			(706)
93	Payments related to shared services	1,334,665			(1,334,665)
95	Payments to Juvenile Justice Alternative	27,873			(27,873)
99	Other governmental charges	237,068			(237,068)
TG	Total governmental activities	<u>\$ 56,403,886</u>	<u>\$ 3,476,859</u>	<u>\$ 5,630,127</u>	<u>(47,296,900)</u>

Data Control Codes	General revenues:	
	Taxes:	
MT	Property taxes, levied for general purposes	21,723,439
DT	Property taxes, levied for debt service	6,797,564
SF	State-aid formula grants	14,326,369
GC	Grants and contributions not restricted	127,892
IE	Investment earnings	138,073
MI	Miscellaneous	49,202
SI	Special item - gain on sale of asset	2,022
TR	Total general	<u>43,164,561</u>
CN	Change in net assets	(4,132,339)
NB	Net assets - beginning	<u>18,059,002</u>
NE	Net assets - ending	<u>\$ 13,926,663</u>

See Notes to the Financial Statements

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT

BALANCE SHEET

GOVERNMENTAL FUNDS

August 31, 2011

<u>Data Control Codes</u>	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>
Assets			
1110 Cash and temporary investments	\$ 11,523,284	\$ 1,377,190	\$ 9,205,057
Receivables:			
1220 Property taxes - delinquent	562,977	136,703	
1230 Allowance for uncollectible taxes (credit)	(30,037)	(3,369)	
1240 Receivables from other governments	89,111		
1260 Due from other funds	973,390		
1290 Other receivables	40,332		
1300 Inventories, at cost	170,904		
1000 Total Assets	<u>\$ 13,329,961</u>	<u>\$ 1,510,524</u>	<u>\$ 9,205,057</u>
 Liabilities and Fund Balances			
Liabilities:			
2110 Accounts payable	\$ 255,087	\$ 500	\$ 644,447
2140 Interest payable			
2150 Payroll withholdings payable	3,766		
2160 Accrued wages payable	2,083,896		11,302
2170 Due to other funds	117,720		
2300 Deferred revenues	922,687	168,768	
2000 Total Liabilities	<u>3,383,156</u>	<u>169,268</u>	<u>655,749</u>
 Fund Balances:			
Nonspendable :			
3410 Inventories	170,904		
Restricted:			
3450 Grant restrictions			
3470 Capital acquisitions			8,549,308
3480 Debt service		1,341,256	
Committed :			
3545 Other purposes	2,700,000		
Assigned:			
3590 Other assigned	170,000		
3600 Unassigned	<u>6,905,901</u>		
3000 Total fund balances	<u>9,946,805</u>	<u>1,341,256</u>	<u>8,549,308</u>
4000 Total Liabilities and Fund Balances	<u>\$ 13,329,961</u>	<u>\$ 1,510,524</u>	<u>\$ 9,205,057</u>

See Notes to the Financial Statements

Exhibit C-1

Other Governmental Funds	Total Governmental Funds
\$ 1,013,966	\$ 23,119,497
	699,680
	(33,406)
956,288	1,045,399
119,026	1,092,416
103,515	143,847
	170,904
<u>\$ 2,192,795</u>	<u>\$ 26,238,337</u>
\$ 32,983	\$ 933,017
	3,766
13,139	2,108,337
954,696	1,072,416
	1,091,455
<u>1,000,818</u>	<u>5,208,991</u>
	170,904
426,525	426,525
	8,549,308
	1,341,256
765,452	3,465,452
	170,000
	6,905,901
<u>1,191,977</u>	<u>21,029,346</u>
<u>\$ 2,192,795</u>	<u>\$ 26,238,337</u>

(This page intentionally left blank.)

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF BALANCE SHEET FOR GOVERNMENTAL FUNDS
TO STATEMENT OF NET ASSETS

Exhibit C-2

August 31, 2011

Data
Control
Codes

Total fund balance, governmental funds \$ 21,029,346

Amounts reported for governmental activities in the statement of net assets 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 108,922,821

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). 543,487

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:

3 General obligation bonds (113,589,978)

4 Premiums on issuance (3,229,741)

5 Bond issuance costs 900,962

6 Deferred charges on refunding 27,401

7 Accreted interest on premium compound interest bonds (128,070)

8 Accrued compensated absences (1,088,805)

9 Accrued interest payable (230,132)

10 Addition of Internal Service fund net assets 769,372

19 Total net assets - governmental activities \$ 13,926,663

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, 2011

Data Control Codes		General Fund	Debt Service Fund	Capital Projects Fund
	Revenues			
5700	Local, intermediate, and out-of-state	\$ 22,624,132	\$ 6,794,815	\$ 32,528
5800	State program revenues	16,256,515	17,640	
5900	Federal program revenues			
5020	Total Revenues	<u>38,880,647</u>	<u>6,812,455</u>	<u>32,528</u>
	Expenditures			
	Current:			
0011	Instruction	22,097,639		425,662
0012	Instruction resources and media services	560,548		
0013	Curriculum and instructional staff development	47,233		
0021	Instructional leadership	622,437		
0023	School leadership	2,205,731		
0031	Guidance, counseling and evaluation services	886,250		
0032	Social work services	29		
0033	Health services	403,182		
0034	Student transportation	1,285,286		
0035	Food services			
0036	Extracurricular activities	1,464,087		93,529
0041	General administration	1,714,649		58,774
0051	Facilities maintenance and operations	3,785,036		904,104
0052	Security and monitoring services	135,518		
0053	Data processing services	792,400		1,443,233
0061	Community services	25,642		
	Debt service:			
0071	Principal on long-term debt		2,525,000	
0072	Interest on long-term debt		5,333,995	
	Capital outlay:			
0081	Capital outlay			9,416,440
	Intergovernmental:			
0093	Payments related to shared services arrangements	1,334,665		
0095	Payments to Juvenile Justice Alternative Education Program	27,873		
0099	Other intergovernmental charges	237,068		
6030	Total Expenditures	<u>37,625,273</u>	<u>7,858,995</u>	<u>12,341,742</u>
1100	Excess (deficiency) of revenues over expenditures	<u>1,255,374</u>	<u>(1,046,540)</u>	<u>(12,309,214)</u>
	Other Financing Sources (Uses)			
7911	Capital-related debt issued (regular bonds)			
7915	Transfers in	27,468		
8911	Transfers out			
7080	Total other financing sources (uses)	<u>27,468</u>		
1200	Net change in fund balances	1,282,842	(1,046,540)	(12,309,214)
0100	Fund Balance - September 1 (Beginning)	<u>8,663,963</u>	<u>2,387,796</u>	<u>20,858,522</u>
3000	Fund Balance - August 31 (Ending)	<u>\$ 9,946,805</u>	<u>\$ 1,341,256</u>	<u>\$ 8,549,308</u>

See Notes to the Financial Statements

Exhibit C-3

<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 2,822,872	\$ 32,274,347
198,233	16,472,388
<u>3,508,818</u>	<u>3,508,818</u>
<u>6,529,923</u>	<u>52,255,553</u>
3,381,198	25,904,499
	560,548
64,806	112,039
185,534	807,971
90,234	2,295,965
775	887,025
	29
105,867	509,049
51,178	1,336,464
2,246,447	2,246,447
44,719	1,602,335
158,906	1,932,329
	4,689,140
536	136,054
45,353	2,280,986
156,446	182,088
	2,525,000
	5,333,995
	9,416,440
	1,334,665
	27,873
	<u>237,068</u>
<u>6,531,999</u>	<u>64,358,009</u>
<u>(2,076)</u>	<u>(12,102,456)</u>
14,996	42,464
<u>(42,464)</u>	<u>(42,464)</u>
<u>(27,468)</u>	
(29,544)	(12,102,456)
<u>1,221,521</u>	<u>33,131,802</u>
<u>\$ 1,191,977</u>	<u>\$ 21,029,346</u>

(This page intentionally left blank.)

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, 2011

Exhibit C-4

Data
Control
Codes

Net change in fund balances - total governmental funds (from C-3) \$ (12,102,456)

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	11,095,548
Depreciation Expense	(5,242,007)

2 Governmental funds report the entire net sales price (proceeds) from sale of an asset as revenue because it provides current financial resources. In contrast, the Statement of Activities reports only the gain on the sale of the assets. Thus, the change in net assets differs from the change in fund balance by the cost of the asset sold. (7,064)

2 Property tax revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 10,631

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 assets. 2,525,000

Some expenses reported in the statement of activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds:

4 Decrease in interest payable not recognized in fund statements	18,839
5 Amortization of bond premium	160,359
6 Amortization of deferred loss on defeasance of bonds	(51,895)
7 Accreted interest on capital appreciation bonds and amortization of bond issuance costs	(89,766)
8 (Increase) decrease in long-term portion of accrued compensated absences payable	(84,895)
9 Internal service funds are used by management to charge the costs of certain activities, such as insurance and telecommunications, to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities (see D-3).	(364,633)

Change in net assets of governmental activities (see B-1) \$ (4,132,339)

See Notes to the Financial Statements

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT*Exhibit D-1***STATEMENT OF NET ASSETS****PROPRIETARY FUNDS***August 31, 2011*

<u>Data Control Codes</u>		<u>Governmental Activities - Internal Service Fund</u>
	Assets	
	Current Assets:	
1110-75	Cash and cash equivalents	\$ 1,155,656
	Total Current Assets	<u>1,155,656</u>
1000	Total Assets	<u>1,155,656</u>
	Liabilities	
	Current Liabilities:	
2110	Accounts payable	46,043
	Total Current Liabilities	<u>46,043</u>
	Non-current Liabilities:	
2590	Claims and judgments	340,240
	Total Non-current Liabilities	<u>340,240</u>
2000	Total Liabilities	<u>386,283</u>
	Net Assets	
3900	Unrestricted net assets	769,373
3000	Total Net Assets	<u>\$ 769,373</u>

See Notes to the Financial Statements.

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
For the Year Ended August 31, 2011

Exhibit D-2

<u>Data Control Codes</u>		<u>Governmental Activities - Internal Service Fund</u>
	Operating Revenues	
5754	Charges for services	\$
5020	Total Operating Revenues	<hr/>
	Operating Expenses	
6400	Claims expense and other operating expenses	364,633
6030	Total Operating Expenses	<hr/> 364,633 <hr/>
1200	Operating Income	<hr/> (364,633)
	Non-Operating Revenues (Expenses)	
7955	Investment earnings	916
	Total Nonoperating Revenues (Expenses)	<hr/> 916 <hr/>
	Income before Transfers	<hr/> (363,717)
1200	Change in Net Assets	(363,717)
0100	Net Assets - September 1 (Beginning)	1,133,090
3300	Net Assets - August 31 (Ending)	<hr/> \$ 769,373 <hr/> <hr/>

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, 2011*

	Non-major Internal Service Fund
Cash Flows from Operating Activities:	
Cash payments for insurance claims	\$ (150,265)
Cash payments to suppliers for goods and services	15,804
Net Cash Provided by (Used for) Operating Activities	<u>(134,461)</u>
Cash Flows from Investing Activities:	
Interest on investments	916
Net Cash Provided by Investing Activities	<u>916</u>
Net Increase in Cash and Cash Equivalents	(133,545)
Cash and Cash Equivalents at Beginning of Year	<u>1,289,201</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 1,155,656</u></u>
Reconciliation to Balance Sheet	
Cash and Cash Equivalents Per Cash Flow	\$ 1,155,656
Cash and Cash Equivalents per Balance Sheet	<u>\$ 1,155,656</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating Income (Loss)	\$ (150,265)
Change in Assets and Liabilities:	
Increase (decrease) in Accounts Payable	15,804
Net Cash Provided by (Used for) Operating Activities	<u><u>\$ (134,461)</u></u>

See Notes to the Financial Statements.

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
August 31, 2011

Exhibit E-1

<u>Data Control Codes</u>		<u>Private Purpose Trust Funds</u>	<u>Agency Fund</u>
	Assets		
1110	Cash and cash equivalents	\$ 10,028	\$ 915,766
	Receivables:		
1290	Other receivables		20,000
	Total Assets	<u>10,028</u>	<u>\$ 935,766</u>
	Liabilities		
2110	Accounts payable		52,730
2150	Payroll deductions and withholdings		98,710
2170	Due to other funds		20,000
2190	Due to student groups		764,326
2000	Total Liabilities		<u>\$ 935,766</u>
	Net Assets		
3800	Restricted	<u>\$ 10,028</u>	

See Notes to the Financial Statements.

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT

Exhibit E-2

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

For the Year Ended August 31, 2011

	<u>Private Purpose Trust Funds</u>
Deductions	
Non-operating expenses	\$ 4,500
Total deductions	<u>4,500</u>
Change in net assets	(4,500)
Net assets beginning of year	<u>14,528</u>
Net assets end of year	<u><u>\$ 10,028</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 assets and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities* normally are supported by taxes and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or 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 fiduciary fund financial statements reflect the District's agency fund, reporting only assets and liabilities, and do not have a measurement focus.

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:

- The *internal service fund* accounts for health services provided to other funds and/or employees of the District on a cost reimbursement basis.
- The *agency fund* is used to account for assets held by the District as an agent for student organizations. The fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operation.

Non-major 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.

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.

Note 1 - Summary of Significant Accounting Policies (continued)

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

The principal operating revenues of the District's internal service fund are charges to the funds and/or employees for self-funded health services. Operating expenses for the internal service fund include the cost of services and administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

Deposits and Investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, investment pools, overnight investments in money market funds (Sweep), and short-term investments with original maturities of three months or less from the date of acquisition.

For cash management purposes, the District's depository agreement with the bank includes arrangements for the District's master account balance at the end of the day to be transferred (swept) into a money market fund managed by a broker/dealer. The cash is transferred back to the District the following business day. The amounts are swept into money market funds designated by the District. The District has designated a money market fund which invests in government securities. The amount in the Sweep account is treated as cash and cash equivalents.

Investments for the District are reported at fair value based on quoted market prices at August 31, 2011. 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 equal to 5 percent of outstanding property taxes and related penalties and interest at August 31, 2011. 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. Prior to September 1 of each year, the District must adopt its annual budget and as soon thereafter as practicable, shall adopt a tax rate thus creating the tax levy. Property taxes for the current calendar year are levied on approximately October 1 of each year and are payable by January 31 of the following year. Property tax receivables are recorded as of the date levied. Unpaid taxes become delinquent on February 1 and a tax lien on real property is created as of July 1 of each year.

Note 1 - Summary of Significant Accounting Policies (continued)

Inventories and Prepaid Items

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

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

Capital Assets

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

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

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.

Note 1 - Summary of Significant Accounting Policies (continued)

Compensated Absences (continued)

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 assets.

Long-term Obligations

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

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 workers' compensation and compensated absences are accounted for in the general fund. The requirements for health insurance are accounted for in the internal service fund.

Fund Equity

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 has been properly classified in the Governmental Funds Balance Sheet (Exhibit C-1).

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

Note 1 - Summary of Significant Accounting Policies (continued)

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. The Superintendent has set aside \$170,000 as assigned fund balance in the general fund to cover estimated future payments to the State of Texas.

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

Beginning fund balances for the District's governmental funds have been restated to reflect the above classifications.

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.

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 2011, 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:

	<u>Fair Market Value</u>	<u>Weighted Average Maturity (In days)</u>
Governmental Activities:		
Cash and deposits	\$ 2,130,664	N/A
Certificates of deposit	3,750,000	N/A
Investments		
Local Government Investment Pools:		
Lone Star	11,081,416	38
MBIA Texas Class	6,243,488	40
Texpool	64,977	46
TexStar	1,004,607	45
	<u>18,394,488</u>	39
Total Investments	<u>22,144,488</u>	
Total Governmental Activities	<u>24,275,152</u>	
Fiduciary Funds:		
Cash and deposits	925,794	
Total Fiduciary Funds	<u>925,794</u>	
Total	<u>\$ 25,200,946</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, 2011, the District's investments were rated as follows:

Investment	Rating	Rating Agency
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, 2011 consisted of the following:

Investment Type	Fair Market Value	Percentage of Portfolio
Lone Star	\$ 11,081,416	11.99%
MBIA Texas Class	6,243,488	28.19%

The investments are reported by the District at fair value. The amount of decrease in the fair value of these investments during the year ended August 31, 2011 is \$0.

Note 3 - Receivables

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

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Nonmajor and Fiduciary Funds</u>	<u>Total</u>
Property taxes	\$ 562,977	\$ 136,703	\$	\$	\$ 699,680
Due from other governments	89,111			956,288	1,045,399
Other	40,332			103,515	143,847
Gross receivables	692,420	136,703		1,059,803	1,888,926
Less allowance for doubtful accounts	(30,037)	(3,369)			(33,406)
Net total receivables	<u>\$ 662,383</u>	<u>\$ 133,334</u>	<u>\$</u>	<u>\$ 1,059,803</u>	<u>\$ 1,855,520</u>

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period or in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenues reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
Delinquent property taxes receivable (General Fund)	\$ 439,601	\$	\$ 439,601
Delinquent property taxes receivable (Debt Service Fund)	103,886		103,886
Advanced collection of tuition and fees		547,968	547,968
	<u>\$ 543,487</u>	<u>\$ 547,968</u>	<u>\$ 1,091,455</u>

Note 4 - Capital Assets

Capital asset activity for the year ended August 31, 2011, was as follows:

	<u>Balance August 31, 2010</u>	<u>Additions</u>	<u>(Retirements and Transfers)</u>	<u>Balance August 31, 2011</u>
Capital assets, not being depreciated				
Land	\$ 1,990,385	\$	\$	\$ 1,990,385
Construction in progress	74,627,928	9,788,127	(84,183,416)	232,639
Total Capital assets, not being depreciated	<u>76,618,313</u>	<u>9,788,127</u>	<u>(84,183,416)</u>	<u>2,223,024</u>
Capital assets, being depreciated				
Buildings and improvements	52,388,633	61,946	83,955,451	136,406,030
Furniture and equipment	4,873,651	1,245,475	63,965	6,183,091
Assets under capital lease	144,417			144,417
Total Capital assets, being depreciated	<u>57,406,701</u>	<u>1,307,421</u>	<u>84,019,416</u>	<u>142,733,538</u>
Less accumulated depreciation for:				
Buildings and improvements	(26,959,594)	(4,894,741)	166,019	(31,688,316)
Furniture and Equipment	(3,998,159)	(347,266)		(4,345,425)
Total Accumulated depreciation	<u>(30,957,753)</u>	<u>(5,242,007)</u>	<u>166,019</u>	<u>(36,033,741)</u>
Governmental Capital Assets	<u>\$ 103,067,261</u>	<u>\$ 5,853,541</u>	<u>\$ 2,019</u>	<u>\$ 108,922,821</u>

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	\$ 3,026,704
Instructional resources and media services	76,774
Curriculum and staff development	6,469
Instructional leadership	85,251
School leadership	302,103
Guidance, counseling and evaluation services	121,383
Social work services	4
Health services	55,221
Student transportation	176,037
Food Services	307,680
Extracurricular activities	200,526
General administration	234,843
Plant maintenance and operations	518,410
Security and monitoring services	18,561
Data processing services	108,529
Community services	3,512
	<u>\$ 5,242,007</u>

Construction Commitments

<u>Project</u>	<u>Approved Construction Budget</u>	<u>Construction in Progress</u>	<u>Remaining Commitment</u>
Transporation Fuel System	\$ 220,548	\$ 189,000	\$ 31,548
Culinary Lab at High School	76,215	35,021	41,194
Westwood Entrance	4,651	4,651	
High School Awning	2,789	2,783	6
Auditorium Entrance	1,184	1,184	
	<u>\$ 305,387</u>	<u>\$ 232,639</u>	<u>\$ 72,748</u>

Note 5 - Interfund Receivables, Payables, and Transfers

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

During the fiscal year, \$5,743 was transferred from the miscellaneous special revenue fund to the general fund in order to close the receivable in the special revenue fund recorded for an insurance reimbursement the District does not plan to receive. A transfer of \$14,996 was made from the special revenue fund to the advanced placement incentive fund in order to properly record revenue received from TEA. A transfer of \$120 was made from the state funded special revenue fund to the general fund to close out the high school allotment fund. During the fiscal year, \$21,605 was transferred from the miscellaneous special revenue fund to the general fund to close out revenue received in prior years and expended in the general fund.

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

The composition of interfund balances as of August 31, 2011, is as follows:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>	<u>Net</u>
Governmental Funds			
General Fund	\$ 973,390	\$ 117,720	\$ 855,670
Non-major Governmental Funds	119,026	954,696	(835,670)
Total Governmental Funds	<u>1,092,416</u>	<u>1,072,416</u>	<u>20,000</u>
Fiduciary Funds			
Agency Fund		20,000	(20,000)
Total Fiduciary Funds		<u>20,000</u>	<u>(20,000)</u>
Total	<u>\$ 1,092,416</u>	<u>\$ 1,092,416</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 100 days of local sick leave 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, 2010	\$ 993,910
Additions: New entrants and salary increments	294,460
Deductions: Payments to participants	<u>(199,565)</u>
Balance, August 31, 2011	<u>\$ 1,088,805</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, 2011, the legal debt limit was \$205,292,296 and the legal debt margin was \$88,371,908.

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, 2011.

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, 2011 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	\$ 5,499,978
Unlimited Tax Refunding Bonds, Series 2006	2,725,000	3.60%	2/15/2013	810,000
Unlimited Tax Schoolhouse Bonds, Series 2008	96,750,000	4.00% to 5.00%	2/15/2037	96,750,000
Unlimited Tax Refunding Bonds, Series 2009	10,000,000	2.00% to 3.00%	2/15/2018	9,345,000
Unlimited Tax Refunding Bonds, Series 2010	2,565,000	2.00%	2/15/2012	1,185,000
				<u>\$ 113,589,978</u>

Debt service requirements to maturity are as follows:

<u>Year Ending August 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2012	\$ 2,570,000	\$ 5,275,261	\$ 7,845,261
2013	2,459,978	5,208,841	7,668,819
2014	2,680,000	5,129,821	7,809,821
2015	2,770,000	5,040,392	7,810,392
2016	2,865,000	4,944,381	7,809,381
2017-2021	15,525,000	22,960,148	38,485,148
2022-2026	19,680,000	18,693,315	38,373,315
2027-2031	25,250,000	13,118,511	38,368,511
2031-2036	32,305,000	6,065,678	38,370,678
2037-2040	7,485,000	187,125	7,672,125
	<u>\$ 113,589,978</u>	<u>\$ 86,623,473</u>	<u>\$ 200,213,451</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>
2006	\$ 188,048	\$ 59,978	\$ 128,070	\$ 200,000	2013
	<u>\$ 188,048</u>	<u>\$ 59,978</u>	<u>\$ 128,070</u>	<u>\$ 200,000</u>	

Note 7 - Long-Term Liabilities (continued)

Prior Years' Refunding of Long-Term Debt

In prior years the District defeased certain general obligation debt by placing the proceeds of the new bonds, in an irrevocable trust to provide for all future debt service payments on the refunded debt. Accordingly, the trust account assets and the liability for the defeased debt are not included in the District's financial statements. At August 31, 2011, \$1,925,000 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, 2011:

	<u>Balance</u> <u>August 31, 2010</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>August 31, 2011</u>	<u>Due Within</u> <u>One Year</u>
General obligation bonds	\$ 116,114,978	\$	\$ (2,525,000)	\$ 113,589,978	\$ 2,570,000
Less deferred amounts:					
For issuance premiums/discounts	3,390,100		(160,359)	3,229,741	
Gain or loss on refunding bonds	(79,296)		51,895	(27,401)	
Accreted interest on premium compound interest bonds	120,502	7,568		128,070	
Accrued compensated absences	993,910	294,460	(199,565)	1,088,805	
	<u>\$ 120,540,194</u>	<u>\$ 302,028</u>	<u>\$ (2,833,029)</u>	<u>\$ 118,009,193</u>	<u>\$ 2,570,000</u>

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

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

	<u>General Fund</u>	<u>Debt Service</u> <u>Fund</u>	<u>Capital</u> <u>Projects Fund</u>	<u>Nonmajor and</u> <u>Fiduciary</u> <u>Funds</u>	<u>Total</u>
Property Taxes	\$ 21,719,357	\$ 6,741,510	\$	\$	\$ 28,460,867
Investment Income	95,224	3,800	32,528	6,521	138,073
Co-curricular student activities	181,658				181,658
Food Sales				2,115,266	2,115,266
Other	627,893	49,505		701,085	1,378,483
	<u>\$ 22,624,132</u>	<u>\$ 6,794,815</u>	<u>\$ 32,528</u>	<u>\$ 2,822,872</u>	<u>\$ 32,274,347</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, 2011. The imputed interest on the leases is not readily determinable.

Rental expenditures during the year amounted to \$272,980.

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 year 2011, 2010, and 2009. The State contributed at a rate of 6.644 for fiscal year 2011 of all employees' eligible gross earnings, except for those staff members subject to statutory minimum requirements and those staff members being paid from and participating in federally funded programs. State statutes establish these rates. The statutory minimum requirements are based on the State of Texas teacher schedules adjusted based on local tax rates. For staff members funded by federal programs, the federal programs are requirement to contribute 6.644% for fiscal year 2011, 6.4% for most of fiscal year 2010 (6.4% between September 2009 and December 2009) and 6.58% for fiscal year 2009.

Contributions: Contributions made by the State, District, and staff members for the years ended August 31, 2011, 2010, and 2009 are as follows:

For the Year Ended August 31	State TRS Contributions Made on Behalf of the District	District Required Contributions to TRS	Staff Members' Contributions to TRS	Covered Payroll
2011	\$ 1,551,580	\$ 424,507	\$ 1,888,775	\$ 29,512,141
2010	1,546,336	433,364	1,914,267	29,910,615
2009	1,620,412	309,017	1,847,912	28,874,000

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 1.0% and .65% of public school payroll, respectively, with school districts contributing a percentage of payroll set at .55% for fiscal years 2011, 2010, and 2009. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than .25% or greater than .75% of the salary of each active employee of the public school. For staff members funded by federal programs, the federal programs are required to contribute 1.0%.

Contributions made by the State, District, and staff members for the years ended August 31, 2011, 2010, and 2009 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
2011	\$ 283,589	\$ 173,851	\$ 191,830	\$ 29,512,141
2010	288,239	175,373	194,419	29,910,615
2009	242,130	158,804	187,681	28,874,000

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, 2011, 2010, and 2009, the subsidy payments received by TRS-Care on-behalf of the District were \$67,751, \$74,646, and \$65,616, respectively. These payments are recorded as equal revenues and expenditures in the governmental funds financial statements of the District.

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, 2011 was as follows:

Contributions to pension plan	\$ 1,551,580
Insurance contributions (TRS Care)	283,589
Insurance contributions (Medicare Part D)	67,751
	<u>\$ 1,902,920</u>

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.

In addition, the District is a member of the Texas Association of School Boards Joint Account Self-Insurance Fund (Fund). The Fund was created to formulate, develop and administer a program of modified self-funding for the property and/or liability coverage for its membership, provide claims administration, and develop a comprehensive loss control program. The District pays contributions to the Fund for its general and educators' liability coverage. The District's agreement with the Fund provides that the Fund will be self-sustaining through member premiums and will provide, through commercial companies, reinsurance contracts.

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 into the general fund by the National School Breakfast and Lunch Program special revenue fund and 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.

Note 13 - Risk Management (continued)

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 \$300,000 up to the statutory limits for any given claim. 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:

<u>Fiscal Year</u>	<u>Beginning of Year Accrual</u>	<u>Current Year Estimates</u>	<u>Claims Payments</u>	<u>End of Year Accrual</u>
2010	\$ 283,467	\$ (69,231)	\$ 58,125	\$ 156,111
2011	156,111	79,907	150,265	386,283

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 8.7 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	<u>\$ 27,873</u>
Expenditures:	
Payroll costs	\$ 20,348
Contract services	7,203
Supplies and materials	312
Other operating costs	10
Total expenditures	<u>\$ 27,873</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 2.6 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.

Note 14 - Shared Service Arrangements / Joint Ventures (continued)

Revenues:	
Local revenue	\$ 37,155
	<u>37,155</u>
Expenditures:	
Payroll costs	\$ 29,539
Contract services	5,459
Supplies and materials	1,406
Other operating costs	751
Total expenditures	<u>\$ 37,155</u>

The District participates in the Energy for Schools shared services arrangement. Energy for Schools is a state electricity procurement cooperative with more than 104 member districts across the state. Member Districts are charged for their electric consumption at contracted rates. Although 1.8 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 \$1,297,510. 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, 2011.

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.

(This page intentionally left blank.)

Required Supplementary Information

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Year Ended August 31, 2011

Exhibit G-1

Data Control Codes	Budgeted Amounts		Actual Amounts, Budgetary Basis	Variance with Final Budget - Positive (Negative)	
	Original	Final			
Revenues					
5700	Local revenues	\$ 21,884,460	\$ 21,884,460	\$ 22,624,132	\$ 739,672
5800	State program revenues	17,224,324	17,224,324	16,256,515	(967,809)
5020	Total Revenues	<u>39,108,784</u>	<u>39,108,784</u>	<u>38,880,647</u>	<u>(228,137)</u>
Expenditures					
Current:					
0011	Instruction	23,395,731	23,700,804	22,097,639	1,603,165
0012	Instruction resources and media services	895,560	688,841	560,548	128,293
0013	Curriculum and instructional staff development	49,299	61,172	47,233	13,939
0021	Instructional leadership	750,761	791,331	622,437	168,894
0023	School leadership	2,153,328	2,352,430	2,205,731	146,699
0031	Guidance, counseling and evaluation services	896,016	918,471	886,250	32,221
0032	Social work services	800	2,800	29	2,771
0033	Health services	412,126	422,559	403,182	19,377
0034	Student transportation	1,372,853	1,774,775	1,285,286	489,489
0036	Extracurricular activities	1,400,204	1,545,274	1,464,087	81,187
0041	General administration	1,826,051	1,926,531	1,714,649	211,882
0051	Facilities maintenance and operations	3,139,280	3,890,286	3,785,036	105,250
0052	Security and monitoring services	163,000	163,000	135,518	27,482
0053	Data processing services	782,450	813,159	792,400	20,759
0061	Community services		45,000	25,642	19,358
Intergovernmental:					
0093	Payments related to shared services arrangements	1,945,300	1,798,014	1,334,665	463,349
0095	Payments to Juvenile Justice Alternative Education Programs	41,800	51,800	27,873	23,927
0099	Other intergovernmental charges	255,000	280,000	237,068	42,932
6030	Total Expenditures	<u>39,479,559</u>	<u>41,226,247</u>	<u>37,625,273</u>	<u>3,600,974</u>
1100	Excess (deficiency) of revenues over expenditures	<u>(370,775)</u>	<u>(2,117,463)</u>	<u>1,255,374</u>	<u>3,372,837</u>
Other Financing Sources (Uses)					
7915	Transfers in		6,000	27,468	21,468
7080	Total other financing sources and uses		<u>6,000</u>	<u>27,468</u>	<u>21,468</u>
1200	Net change in fund balances	(370,775)	(2,111,463)	1,282,842	3,394,305
0100	Fund balances - beginning	<u>8,663,963</u>	<u>8,663,963</u>	<u>8,663,963</u>	
3000	Fund balances - ending	<u>\$ 8,293,188</u>	<u>\$ 6,552,500</u>	<u>\$ 9,946,805</u>	<u>\$ 3,394,305</u>

A. Budgets and Budgetary Accounting

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

Expenditures may not legally exceed budgeted appropriations at the function or activity level. Expenditure requests which would require an increase in total budgeted appropriations must be approved by the Trustees through formal budget amendment. State law prohibits trustees from making budget appropriations in excess of funds available and estimated revenues. State law also prohibits amendment of the budget after fiscal year end. Supplemental appropriations were made to the General Fund during the fiscal year ended August 31, 2011.

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, 2010. 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.

(This page intentionally left blank.)

Other Supplementary Information

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT

COMBINING BALANCE SHEET

ALL NON-MAJOR GOVERNMENTAL FUNDS

August 31, 2011

		211	224
<u>Data Control Codes</u>		<u>ESEA Title I, Part A</u>	<u>IDEA-B Formula</u>
	Assets		
1110	Cash and temporary investments	\$	\$
	Receivables:		
1240	Receivables from other governments	19,766	130,348
1260	Due from other funds		
1290	Other receivables		
1000	Total Assets	<u>\$ 19,766</u>	<u>\$ 130,348</u>
	Liabilities and Fund Balances		
	Liabilities:		
	Current Liabilities:		
2110	Accounts payable	\$	\$ 9,384
2160	Accrued wages payable		
2170	Due to other funds	19,766	120,964
2000	Total Liabilities	<u>19,766</u>	<u>130,348</u>
	Fund Balances:		
	Restricted:		
3450	Grant restrictions		
	Committed :		
3545	Other purposes		
	Assigned:		
3590	Other assigned		
3600	Unassigned		
3000	Total Fund Balances		
4000	Total Liabilities and Fund Balances	<u>\$ 19,766</u>	<u>\$ 130,348</u>

225	226	240	243	244	255
IDEA-B Preschool Grant	IDEA-B Discretionary	Child Nutrition	Vocational Ed - Tech Prep	Vocational Ed -Basic	Title II, Part A
\$	\$	\$ 274,577	\$	\$	\$
		2,370		7,750	16,546
		119,026			
		280			
<u>\$</u>	<u>\$</u>	<u>\$ 396,253</u>	<u>\$</u>	<u>\$ 7,750</u>	<u>\$ 16,546</u>
\$	\$	\$ 2,258	\$	\$	\$ 157
		11,905			
				7,750	16,389
		14,163		7,750	16,546
		382,090			
		382,090			
<u>\$</u>	<u>\$</u>	<u>\$ 396,253</u>	<u>\$</u>	<u>\$ 7,750</u>	<u>\$ 16,546</u>

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT

COMBINING BALANCE SHEET

ALL NON-MAJOR GOVERNMENTAL FUNDS

August 31, 2011

Data Control Codes		263 Title III	266 Title XIV, State Fiscal Stabilization Fund	281 REMS - Readiness & Emergency Management for Schools
	Assets			
1110	Cash and temporary investments	\$	\$	\$
	Receivables:			
1240	Receivables from other governments	308	688,668	1,581
1260	Due from other funds			
1290	Other receivables			
1000	Total Assets	\$ 308	\$ 688,668	\$ 1,581
	Liabilities and Fund Balances			
	Liabilities:			
	Current Liabilities:			
2110	Accounts payable	\$	\$	\$
2160	Accrued wages payable			
2170	Due to other funds	308	688,668	1,581
2000	Total Liabilities	308	688,668	1,581
	Fund Balances:			
	Restricted:			
3450	Grant restrictions			
	Committed :			
3545	Other purposes			
	Assigned:			
3590	Other assigned			
3600	Unassigned			
3600	Total Fund Balances			
4000	Total Liabilities and Fund Balances	\$ 308	\$ 688,668	\$ 1,581

283	284	289	397	404
<u>IDEA Part B, Forumula - ARRA</u>	<u>IDEA Part B, Preschool - ARRA</u>	<u>Miscellaneous Federal Programs</u>	<u>Advanced Placement Incentive</u>	<u>Student Succ. Init- Acc REA</u>
\$	\$	\$	\$ 17,131	\$
63,395	2,385			3,342
<u>\$ 63,395</u>	<u>\$ 2,385</u>	<u>\$</u>	<u>\$ 17,131</u>	<u>\$ 3,342</u>
\$ 770	\$	\$	\$	\$
62,625	2,385			3,342
<u>63,395</u>	<u>2,385</u>	<u>\$</u>	<u>\$</u>	<u>3,342</u>
			17,131	
			17,131	
<u>\$ 63,395</u>	<u>\$ 2,385</u>	<u>\$</u>	<u>\$ 17,131</u>	<u>\$ 3,342</u>

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT

COMBINING BALANCE SHEET

ALL NON-MAJOR GOVERNMENTAL FUNDS

August 31, 2011

<u>Data Control Codes</u>	411	429	
	Technology Allotment	State Funded Special Revenue Fund	
Assets			
1110	Cash and temporary investments	\$ 21,805	\$ 16,346
Receivables:			
1240	Receivables from other governments	5,257	14,572
1260	Due from other funds		
1290	Other receivables		
1000	Total Assets	<u>\$ 27,062</u>	<u>\$ 30,918</u>
 Liabilities and Fund Balances			
Liabilities:			
Current Liabilities:			
2110	Accounts payable	\$ 15	\$
2160	Accrued wages payable		
2170	Due to other funds		30,918
2000	Total Liabilities	<u>15</u>	<u>30,918</u>
 Fund Balances:			
Restricted:			
3450	Grant restrictions	27,047	
Committed :			
3545	Other purposes		
Assigned:			
3590	Other assigned		
3600	Unassigned		
3600	Total Fund Balances	<u>27,047</u>	
4000	Total Liabilities and Fund Balances	<u>\$ 27,062</u>	<u>\$ 30,918</u>

Exhibit H-1
Page 3 of 3

461	480	
Campus Activity	Education Foundation Grants	Total Nonmajor Governmental Funds
\$ 783,267	\$ (99,160)	\$ 1,013,966
		956,288
		119,026
	103,235	103,515
<u>\$ 783,267</u>	<u>\$ 4,075</u>	<u>\$ 2,192,795</u>
\$ 16,581	\$ 3,818	\$ 32,983
1,234		13,139
		954,696
<u>17,815</u>	<u>3,818</u>	<u>1,000,818</u>
	257	426,525
765,452		765,452
<u>765,452</u>	<u>257</u>	<u>1,191,977</u>
<u>\$ 783,267</u>	<u>\$ 4,075</u>	<u>\$ 2,192,795</u>

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - ALL NON-MAJOR GOVERNMENTAL FUNDS
For the Year Ended August 31, 2011

<u>Data Control Codes</u>		211	224
		<u>ESEA Title I, Part A</u>	<u>IDEA-B Formula</u>
	Revenues		
5700	Local, intermediate, and out-of-state	\$	\$
5800	State program revenues		
5900	Federal program revenues	122,175	878,938
5020	Total Revenues	<u>122,175</u>	<u>878,938</u>
	Expenditures		
	Current:		
0011	Instruction	122,175	739,803
0013	Curriculum and instructional staff development		
0021	Instructional leadership		
0023	School leadership		
0031	Guidance, counseling and evaluation services		
0033	Health services		87,957
0034	Student transportation		51,178
0035	Food service		
0036	Extracurricular activities		
0041	General administration		
0052	Security and monitoring services		
0053	Data processing services		
0061	Community services		
6030	Total Expenditures	<u>122,175</u>	<u>878,938</u>
1100	Excess (deficiency) of revenues over expenditures		
	Other Financing Sources (Uses)		
7915	Transfers in		
8911	Transfers out		
7080	Total other financing sources and uses		
1200	Net change in fund balances		
0100	Fund balance - September 1 (beginning)		
3000	Fund balance - August 31 (ending)	<u>\$</u>	<u>\$</u>

225	226	240	243	244	255
IDEA-B Preschool Grant	IDEA-B Discretionary	Child Nutrition	Vocational Ed - Tech Prep	Vocational Ed - Basic	Title II, Part A
\$	\$	\$ 2,170,078	\$	\$	\$
		5,870			
37,582	17,910	188,888	11,567	40,545	106,673
<u>37,582</u>	<u>17,910</u>	<u>2,364,836</u>	<u>11,567</u>	<u>40,545</u>	<u>106,673</u>
37,582			11,482	32,795	39,393
			85	7,750	45,319
					13,450
					7,711
	17,910				
		2,246,447			
					800
<u>37,582</u>	<u>17,910</u>	<u>2,246,447</u>	<u>11,567</u>	<u>40,545</u>	<u>106,673</u>
		118,389			
		118,389			
		263,701			
<u>\$</u>	<u>\$</u>	<u>\$ 382,090</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - ALL NON-MAJOR GOVERNMENTAL FUNDS
For the Year Ended August 31, 2011

Data Control Codes		263	266	281
		Title III	Title XIV, State Fiscal Stabilization Fund	REMS - Readiness & Emergency Management for Schools
	Revenues			
5700	Local, intermediate, and out-of-state	\$	\$	\$
5800	State program revenues			
5900	Federal program revenues	14,060	1,589,018	50,887
5020	Total Revenues	<u>14,060</u>	<u>1,589,018</u>	<u>50,887</u>
	Expenditures			
	Current:			
0011	Instruction	11,103	1,187,837	
0013	Curriculum and instructional staff development	2,957		
0021	Instructional leadership		121,197	50,887
0023	School leadership		82,523	
0031	Guidance, counseling and evaluation services			
0033	Health services			
0034	Student transportation			
0035	Food service			
0036	Extracurricular activities		40,231	
0041	General administration		157,230	
0052	Security and monitoring services			
0053	Data processing services			
0061	Community services			
6030	Total Expenditures	<u>14,060</u>	<u>1,589,018</u>	<u>50,887</u>
1100	Excess (deficiency) of revenues over expenditures			
	Other Financing Sources (Uses)			
7915	Transfers in			
8911	Transfers out			
7080	Total other financing sources and uses			
1200	Net change in fund balances			
0100	Fund balance - September 1 (beginning)			
3000	Fund balance - August 31 (ending)	<u>\$</u>	<u>\$</u>	<u>\$</u>

283	284	289	397	404
<u>IDEA Part B, Forumula - ARRA</u>	<u>IDEA Part B, Preschool - ARRA</u>	<u>Miscellaneous Federal Programs</u>	<u>Advanced Placement Incentive</u>	<u>Student Succ. Init- Acc REA</u>
\$	\$	\$	\$	\$
			4,049	10,447
435,424	14,077	1,074		
<u>435,424</u>	<u>14,077</u>	<u>1,074</u>	<u>4,049</u>	<u>10,447</u>
435,424	14,077	1,074	44,332	10,447
			7,800	
<u>435,424</u>	<u>14,077</u>	<u>1,074</u>	<u>52,132</u>	<u>10,447</u>
			(48,083)	
			14,996	
		(27,348)		
		<u>(27,348)</u>	<u>14,996</u>	
		(27,348)	(33,087)	
		27,348	50,218	
<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ 17,131</u>	<u>\$</u>

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - ALL NON-MAJOR GOVERNMENTAL FUNDS
For the Year Ended August 31, 2011

<u>Data Control Codes</u>		411	429
		Technology	State
		Allotment	Funded
		Fund	Revenue
		Fund	Fund
	Revenues		
5700	Local, intermediate, and out-of-state	\$	\$
5800	State program revenues	171,127	
5900	Federal program revenues		
5020	Total Revenues	<u>171,127</u>	<u> </u>
	Expenditures		
	Current:		
0011	Instruction	111,229	
0013	Curriculum and instructional staff development		
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		
0052	Security and monitoring services		
0053	Data processing services	45,353	
0061	Community services		
6030	Total Expenditures	<u>156,582</u>	<u> </u>
1100	Excess (deficiency) of revenues over expenditures	<u>14,545</u>	<u> </u>
	Other Financing Sources (Uses)		
7915	Transfers in		
8911	Transfers out		(15,116)
7080	Total other financing sources and uses		<u>(15,116)</u>
1200	Net change in fund balances	14,545	(15,116)
0100	Fund balance - September 1 (beginning)	<u>12,502</u>	<u>15,116</u>
3000	Fund balance - August 31 (ending)	<u>\$ 27,047</u>	<u>\$ </u>

461	480	
<u>Campus Activity</u>	<u>Education Foundation Grants</u>	<u>Total-Other Governmental Funds</u>
\$ 549,559	\$ 103,235	\$ 2,822,872
6,740		198,233
		3,508,818
<u>556,299</u>	<u>103,235</u>	<u>6,529,923</u>
470,683	111,762	3,381,198
895		64,806
		185,534
		90,234
775		775
		105,867
		51,178
		2,246,447
4,488		44,719
1,676		158,906
536		536
		45,353
<u>155,646</u>		<u>156,446</u>
<u>634,699</u>	<u>111,762</u>	<u>6,531,999</u>
<u>(78,400)</u>	<u>(8,527)</u>	<u>(2,076)</u>
		14,996
		<u>(42,464)</u>
		<u>(27,468)</u>
(78,400)	(8,527)	(29,544)
<u>843,852</u>	<u>8,784</u>	<u>1,221,521</u>
<u>\$ 765,452</u>	<u>\$ 257</u>	<u>\$ 1,191,977</u>

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT

Exhibit H-3

COMBINING STATEMENT OF FIDUCIARY NET ASSETS

August 31, 2011

Data Control Codes		891 Cline Scholarship Fund	892 Winston Scholarship Fund	Total Private Purpose Trust Funds
	Assets			
1110	Cash and cash equivalents	\$ 1,732	\$ 8,296	\$ 10,028
	Total Assets	<u>\$ 1,732</u>	<u>\$ 8,296</u>	<u>\$ 10,028</u>
	Net Assets			
3800	Restricted	<u>\$ 1,732</u>	<u>\$ 8,296</u>	<u>\$ 10,028</u>

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
For the Year Ended August 31, 2011

Exhibit H-4

	891	892	
	<u>Cline Scholarship</u>	<u>Winston Scholarship</u>	<u>Total</u>
Additions			
Gifts and contributions	\$	\$	\$
Earnings on investments			
Total additions			
Deductions			
Non-operating expenses	500	4,000	4,500
Total deductions	500	4,000	4,500
Change in net assets	(500)	(4,000)	(4,500)
Net assets beginning of year	2,232	12,296	14,528
Net assets end of year	\$ 1,732	\$ 8,296	\$ 10,028

(This page intentionally left blank.)

Required TEA Schedules

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF DELINQUENT TAXES RECEIVABLE

For the Year Ended August 31, 2011

<u>Last Ten Fiscal Years</u>	<u>Tax Rates</u>		<u>Net Assessed/Appraised Value For School Tax Purposes</u>	<u>Beginning Balance 8/31/10</u>
	<u>1</u>	<u>2</u>		
	<u>Maintenance</u>	<u>Debt Service</u>		
2002 and prior	Various	Various	Various	\$ 32,186
2003	\$ 1.480000	\$ 0.137000	1,322,337,607	11,113
2004	1.500000	0.137000	1,457,665,058	12,653
2005	1.500000	0.137000	1,529,840,326	13,965
2006	1.500000	0.137000	1,624,895,916	24,202
2007	1.370000	0.137000	1,789,587,724	36,510
2008	1.040000	0.137000	1,956,333,264	37,008
2009	1.040000	0.327000	1,974,337,088	98,079
2010	1.040000	0.327000	2,024,853,767	213,984
2011	1.040000	0.327000	2,052,922,970	
1000 Totals				<u>\$ 479,700</u>

9000 - Portion of Row 1000 for Taxes Paid
into Tax Increment Zone Under Chapter 311, Tax Code (Function 97)

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 8/31/11</u>
\$	\$ 9,617	\$ 957	\$ (2,322)	\$ 19,290
	2,051	187	(216)	8,659
	2,216	202	(322)	9,913
	2,312	211	(404)	11,038
	38,454	3,512	34,765	17,001
	51,830	5,183	43,621	23,118
	46,220	6,089	36,844	21,543
	60,049	18,881	42,799	61,948
	119,827	37,676	43,726	100,207
<u>28,063,457</u>	<u>21,178,974</u>	<u>6,659,158</u>	<u>198,491</u>	<u>225,325</u>
<u>\$ 28,063,457</u>	<u>\$ 21,511,550</u>	<u>\$ 6,732,056</u>	<u>\$ 198,491</u>	498,042
				<u>201,638</u>
				<u>\$ 699,680</u>

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES FOR COMPUTATION OF
INDIRECT COSTS FOR 2012-2013
GENERAL AND SPECIAL REVENUE FUNDS
For the Year Ended August 31, 2011

Exhibit J-2

Account Number	Account Name	1 (702) School Board	2 (703) Tax Collection	3 (701) Supt's Office	4 (750) Indirect Cost	5 (720) Direct Cost	6 (other) Miscellaneous	7 Total
611X-6146	PAYROLL COSTS	\$	\$42,196	\$ 333,928	\$ 733,524	\$ 126,120	\$ 118,141	\$ 1,353,909
6149	Fringe Benefits (Unused Leave for Separating Employees in Function 41 and Related 53)							
6149	Fringe Benefits (Unused Leave for Separating Employees in all Functions except Function 41 and Related 53)							
6211	Legal Services	67,042						67,042
6212	Audit Services				68,500			68,500
6213	Tax Appraisal and Collection (Appraisal district costs only from function 99)		315,402					315,402
6214	Lobbying							
621X	Other Prof. Services	12,000			13,860	12,000		37,860
6220	Tuition and Transfer Payments							
6230	Education Service Centers							
6240	Contr. Maint. and Repair				335			335
6250	Utilities							
6260	Rentals		4,777		7,428			12,205
6290	Miscellaneous Contr.	1,112	44,575	2,537	70,157	425		118,806
6320	Textbooks and Reading							
6330	Testing Materials							
63XX	Other Supplies Materials	1,959	7,304	10,982	17,788	11,378	2,456	51,867
6410	Travel, Subsistence, Stipends	3,283	638	8,775	6,234	3,699	327	22,956
6420	Ins. and Bonding Costs		450					450
6430	Election Costs							
6490	Miscellaneous Operating	2,827	991	33,782	13,984	8,853	854	61,291
6500	Debt Service							
6600	Capital Outlay							
6000	TOTAL	\$ 88,223	\$ 416,333	\$ 390,004	\$ 931,810	\$ 162,475	\$ 121,778	\$ 2,110,623

Total expenditures/expenses for General and Special Revenue Funds
 (plus Food Service Enterprise Fund if present) 9 \$ 44,157,272

Less: Deductions of Unallowable Costs

Fiscal Year	
Total Capital Outlay (6600)	10 \$ 84,858
Total Debt & Lease (6500)	11
Plant Maintenance (Function 51, 6100-6400)	12 3,912,915
Food (Function 35, 6341 and 6499)	13
Stipends (6413)	14
Column 4 (above) - Total Indirect Cost	931,810
Subtotal:	4,929,583
Net Allowed Direct Cost	\$ 39,227,689

Cumulative	
Total Cost of Buildings before Depreciation (1520)	15 \$ 136,406,030
Historical Cost of Buildings over 50 years old	16
Amount of Federal Money in building Cost (Net of #16)	17
Total Cost of Furniture & Equipment before Depreciation (1530&1540)	18 5,910,953
Historical Cost of Furniture & Equipment over 16 years old	19 350,000
Amount of Federal Money in Furniture & Equipment (Net of #19)	20

(8) Note A - \$0 in Function 53 expenditures are included in this report on administrative costs.
 \$237,068 in Function 99 expenditures for appraisal district costs are included in this report on administrative costs.

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE
CHILD NUTRITION PROGRAM FUND
For the Year Ended August 31, 2011

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	\$ 2,000,560	\$ 2,000,560	\$ 2,170,078	\$ 169,518
5800	State Program Revenues	5,801	5,801	5,870	69
5900	Federal Program Revenues	143,846	143,846	188,888	45,042
5020	Total Revenues	<u>2,150,207</u>	<u>2,150,207</u>	<u>2,364,836</u>	<u>214,629</u>
	Expenditures				
	Current:				
0035	Food Services	2,150,207	2,374,729	2,246,447	128,282
6030	Total Expenditures	<u>2,150,207</u>	<u>2,374,729</u>	<u>2,246,447</u>	<u>128,282</u>
1100	Excess (Deficiency) Revenues Over Expenditures		(224,522)	118,389	342,911
1200	Increase (Decrease) in Fund Balance		(224,522)	118,389	342,911
0100	Fund Balance - September 1 (Beginning)	<u>263,701</u>	<u>263,701</u>	<u>263,701</u>	
3000	Fund Balance - August 31 (Ending)	<u>\$ 263,701</u>	<u>\$ 39,179</u>	<u>\$ 382,090</u>	<u>\$ 342,911</u>

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE
DEBT SERVICE FUND
For the Year Ended August 31, 2011

Exhibit J-5

Data Control Codes		Budget		Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negaative)
		Original	Final		
	Revenues				
5700	Local, Intermediate, and Out-of-State	\$ 6,740,706	\$ 6,740,706	\$ 6,794,815	\$ 54,109
5800	State Program Revenues			17,640	17,640
5020	Total Revenues	<u>6,740,706</u>	<u>6,740,706</u>	<u>6,812,455</u>	<u>71,749</u>
	Expenditures				
	Debt Service:				
0071	Principal	2,525,000	2,525,000	2,525,000	
0072	Interest and Fiscal Agent Fees	5,339,050	5,354,050	5,333,995	20,055
6030	Total Expenditures	<u>7,864,050</u>	<u>7,879,050</u>	<u>7,858,995</u>	<u>20,055</u>
1100	Excess (Deficiency) Revenues Over Expenditures	(1,123,344)	(1,138,344)	(1,046,540)	91,804
	Other Financing Sources (Uses)				
7915	Transfers in	<u>1,123,344</u>	<u>1,123,344</u>		<u>(1,123,344)</u>
1200	Increase (Decrease) in Fund Balance		(15,000)	(1,046,540)	(1,031,540)
0100	Fund Balance - September 1 (Beginning)	<u>2,387,796</u>	<u>2,387,796</u>	<u>2,387,796</u>	
3000	Fund Balance - August 31 (Ending)	<u>\$ 2,387,796</u>	<u>\$ 2,372,796</u>	<u>\$ 1,341,256</u>	<u>\$ (1,031,540)</u>

Federal Awards Section

(This page intentionally left blank)

**Independent Auditors' Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial
Statements Performed in Accordance with *Government Auditing Standards***

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

We have audited the financial statements of the governmental 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, 2011, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 11, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

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

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

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

Texas City, Texas
November 11, 2011

**Independent Auditors' Report on Compliance with Requirements that
Could have a Direct and Material Effect on each Major Program and on
Internal Control over Compliance in Accordance with OMB Circular A-133**

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

Compliance

We have audited Friendswood Independent School District's (the "District") compliance with the types of requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended August 31, 2011. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2011. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item #11-01.

Internal Control over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing an opinion on compliance and to test

and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal 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.

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

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the District's responses, and accordingly, we express no opinion on the responses.

Closing

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



Texas City, Texas
November 11, 2011

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended August 31, 2011

I. Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unqualified
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:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) OMB Circular A-133?	Yes, #11-01
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 - B Preschool	84.173A
IDEA - Part B, High Cost Risk Pool	84.027A
ESC - IDEA - Part B, Preschool Discretionary	84.173A
IDEA - Part B, Formula - ARRA	84.391A
IDEA - Part B, Preschool - ARRA	84.392A
Title XIV- State Fiscal Stabilization Fund - ARRA	84.394A
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, 2011

II. Financial Statement Findings

Significant Deficiencies

None reported.

III. Federal Awards Findings and Questioned Costs

Finding 11-01

Maintenance of Effort

Program: IDEA - Part B, Formula and IDEA - Part B, Preschool and Preschool Discretionary, IDEA - Part B, High Risk Cost Pool, IDEA - Part B, Formula - ARRA, IDEA - Part B, Preschool - ARRA

CFDA: 84.027A, 84.173A, 84.391A and 84392A

Condition: The district failed to meet the IDEA – Part B maintenance of effort requirement under OMB Circular A-133.

Criteria: OMB Circular A-133: “...An LEA must expend, in any particular fiscal year, an amount of local funds, or a combination of State and local funds, for the education of children with disabilities that is at least equal, on either an aggregate or per capita basis, to the amount of local funds, or a combination of state and local funds, expended for this purpose by the LEA in the prior fiscal year.”

Cause: The district failed to expend an amount equal to the prior fiscal year for special education services from local funds. The decline in local fiscal effort is estimated at \$170,983. Management detected the decline and was aware that maintenance of effort requirements would not be met for the current fiscal year.

Effect: Non-compliance with the maintenance of effort requirements set forth in the OMB Circular A-133.

Recommendation: It is recommended that the District monitor the IDEA Maintenance of Effort requirements in order to assure they meet the required spending of local and state funds for special education services.

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
For the Year Ended August 31, 2011

IV. Summary Schedule of Prior Audit Findings

Finding #	Corrective Action Taken
Finding 10-01: Amounts reported on the quarterly investments reports do not agree with general ledger balances.	Resolved - Accounting manager was hired during the year and is charged with reconciling the investment reports to the General Ledger each month so that Executive Director of Business can review.
Finding 10-02: Four instances noted whether expenditures were recorded in the wrong fiscal year.	Resolved - Finance implemented cut off procedures earlier each period with only emergency expenditures allowed. Communicated that POs are to be entered at the time of order and not when the invoice is received. Additionally there are three levels of review to ensure expenditures are in the proper period.
Finding 10-03 - IDEA, Part B - Formula - instance where expenditures were recorded in the wrong fiscal year. Two instances noted where amounts paid differed from contracted rates.	Resolved - Finance implemented cut off procedures earlier each period with only emergency expenditures allowed. Communicated that POs are to be entered at the time of order and not when the invoice is received. Additionally there are three levels of review to ensure expenditures are in the proper period. Additional procedures implemented to ensure that expenditures are coded to the proper fiscal year and grant year.

V. Corrective Action Plan

<u>Finding:</u>	<u>Corrective Action Plan</u>	<u>Contact Person</u>	<u>Estimated Completion Date</u>
The district failed to meet the IDEA - Part B maintenance of effort requirement under OMB Circular A-133.	Over the past several years, steps were taken to reduce referrals and enrollment in special education to address state and federal goals. Once accomplished, this necessitated a reduction in special education personnel. This was a one time reduction and the MOE will be met for the 2011-12 school year.	(a)	(b)

- (a) Alison Rendon, Executive Director of Finance
- (b) Completed

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended August 31, 2011

Exhibit K-1

(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			
	Direct Program:			
Q184E090161	<i>Readiness and Emergency Management for Schools</i>	281	84.184E	\$ 50,887
	Total direct programs			<u>50,887</u>
	Passed Through Texas Education Agency:			
11610101084911	<i>ESEA Title I Part A</i>	211	84.010A	122,175
116600010849116000	<i>IDEA - Part B, Formula *</i>	224	84.027A	878,938
116610010849116000	<i>IDEA - Part B, Preschool *</i>	225	84.173A	19,082
11660006084911	<i>IDEA - Part B, High Cost Risk Pool *</i>	226	84.027A	17,910
10554001084911	<i>IDEA - Part B, Formula - ARRA *</i>	283	84.391A	435,424
10555001084911	<i>IDEA - Part B, Preschool - ARRA *</i>	284	84.392A	14,077
11420006084911	<i>Career and Technology Education - Carl D. Perkins</i>	244	84.048A	32,795
10420006084911	<i>Career and Technology Education - Carl D. Perkins</i>	244	84.048A	7,750
11694501084911	<i>ESEA Title II, Part A, Teacher/Principal Training</i>	255	84.367A	106,673
11671001084911	<i>Title III - Part A, English Language Acquisitions</i>	263	84.365A	14,060
11557001084911	<i>Title XIV, State Fiscal Stabilization Fund - ARRA</i>	266	84.394A	1,589,018
69551002	<i>Early Childhood LEP Summer Program</i>	289	84.369A	1,074
	Total passed through Texas Education Agency			<u>3,238,976</u>
	Passed through Texas Higher Ed. Coordinating Board to North Harris Montgomery Community College:			
21715	<i>Vocational Education - Tech. Prep.</i>	243	84.243A	11,567
	Total passed through Texas Higher Ed. Coordinating			<u>11,567</u>
	Passed through Region IV Education Service Center			
1166102271204	<i>ESC - IDEA - Part B, Preschool Discretionary*</i>	225	84.173A	18,500
	Total passed through Region IV			<u>18,500</u>
	Total Passed through Programs			<u>3,269,043</u>
	Total Department of Education			<u>3,319,930</u>
	U.S. Department of Agriculture			
	Passed Through the Texas Department of Agriculture			
	Non Cash Assistance (Commodities):			
71301101	<i>National School Lunch Program**</i>	240	10.555	64,008
	Passed Through Texas Education Agency			
71301101	<i>National School Lunch Program **</i>	240	10.555	114,220
71401101	<i>School Breakfast Program **</i>	240	10.553	10,660
	Total Department of Agriculture			<u>188,888</u>
	Total Expenditures of Federal Awards			<u>\$ 3,508,818</u>

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

Note 2 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of the District under programs of the federal government for the year ended August 31, 2011. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Government, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net assets or cash flows of the District.

Note 3 - Reconciliation to Basic Financial Statements

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

Total expenditures of federal awards per SEFA	<u>\$ 3,508,818</u>
Related expenditures on Exhibit C-3	
Special Revenue Funds	<u>\$ 3,508,818</u>

(This page intentionally left blank.)

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
REQUIRED RESPONSES TO SELECTED SCHOOL FIRST INDICATORS
SCHEDULE L-1
For the year ended August 31, 2011

SF2	Were there any disclosures in the Annual Financial Report and/or other sources of information concerning default on bonded indebtedness obligations?	No
SF4	Did the district receive a clean audit? Was there an unqualified opinion in the Annual Financial Report?	Yes
SF5	Did the Annual Financial Report disclose any instances of material weaknesses in internal controls?	No
SF9	Was there any disclosure in the Annual Financial Report of material noncompliance?	No
SF10	Total accumulated accretion on capital appreciation bonds included in government-wide financial statements at fiscal year-end.	<u>\$ 128,070</u>

DO NOT PRINT IN REPORT