

**FRIENDSWOOD INDEPENDENT
SCHOOL DISTRICT**

**ANNUAL FINANCIAL AND
COMPLIANCE REPORT**

For The Year Ended August 31, 2007



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Texas City, Texas 77590
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FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL AND COMPLIANCE REPORT
For the Year Ended August 31, 2007
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CERTIFICATE OF BOARD

Friendswood Independent School District
Name of School District

Galveston
County

084-911
Co.– Dist.
No.

We, the undersigned, certify that the attached annual financial reports of the above named school district were reviewed and approved for the year ended August 31, 2007, at a meeting of the board of trustees of such school district on _____.

President of the Board

Secretary of the Board

Financial Section

11 Greenway Plaza, Suite 1515
Houston, Texas 77046
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Independent Auditor's 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, 2007, 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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, 2007, and the respective changes in financial position, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 22, 2008 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 important for assessing the results of our audit.

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

The management's discussion and analysis and budgetary comparison information as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The other supplementary information as listed in the table of contents are presented for the purpose of additional analysis and are not a required part of the basic 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 basic financial statements of the District. Such information, except for that portion marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Null-Lairson, PC".

Texas City, Texas
January 22, 2008

Management's Discussion and Analysis

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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, 2007.

Financial Highlights

The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$18,487,683. Of this amount, \$9,050,590 may be used to meet the District's ongoing obligations to students and creditors.

- The District's total net assets increased by \$2,522,633.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$12,739,999 an increase of \$888,924 in comparison with the prior year. The increase in governmental fund balances was primarily due to the increase in the general fund of \$1,630,838. The capital projects fund balance decreased by \$781,087.
- At the end of the current fiscal year, unreserved, undesignated fund balance for the general fund was \$7,067,925, or 20 percent of total general fund expenditures.
- The District's total long-term debt decreased by \$1,825,000 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

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 provide separate information for the Health Insurance Fund.

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

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.

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

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 \$18,487,683 at the close of the most recent fiscal year.

The largest portion of the District's net assets reflect 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.

Comparative Schedule of Net Assets

	Governmental Activities	
	2007	2006
Current and other assets	\$ 18,556,394	\$ 18,299,383
Capital and non current assets	30,950,483	31,700,903
Total Assets	49,506,877	50,000,286
Current liabilities	3,975,903	5,286,448
Long term liabilities	27,043,291	28,748,758
Total Liabilities	31,019,194	34,035,206
Net Assets:		
Invested in capital assets net of related debt	4,986,547	2,922,595
Restricted	4,450,546	5,023,173
Unrestricted	9,050,590	8,019,312
Total Net Assets	\$ 18,487,683	\$ 15,965,080

Net assets are restricted for various purposes as follows:

	Governmental Activities	
	2007	2006
Federal and state programs	\$ 161,249	\$ 77,054
Food Service	116,741	114,197
Debt Service	2,575,485	2,562,214
Capital Projects	924,831	1,705,918
Campus Activities	672,240	563,790
	\$ 4,450,546	\$ 5,023,173

The remaining balance of unrestricted net assets \$9,050,590 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 increased by \$2,522,633 during the current fiscal year.

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

Comparative Schedule of Changes in Net Assets

	Governmental Activities	
	2007	2006
Program Revenues		
Charges for services	\$ 2,493,777	\$ 2,537,557
Operating grants	4,508,824	4,119,931
General Revenues		
Property taxes	27,408,648	27,036,647
State Aid - Formula Grants	9,103,632	6,038,617
Grants and contributions not restricted	6,978	5,069
Interest earnings	923,834	766,577
Other	277,288	163,839
Total Revenues	44,722,981	40,668,237
Expenses		
Instruction	23,448,798	22,480,034
Instructional resources and media services	944,155	894,059
Curriculum and staff development	356,221	158,194
Instructional leadership	789,843	643,787
School leadership	2,003,723	2,100,011
Guidance, counseling, and evaluation services	905,059	836,952
Social work services	31,960	
Health services	433,712	349,676
Student transportation	1,443,594	1,657,708
Food service	1,835,290	1,601,403
Extracurricular activities	1,129,757	1,101,053
General administration	2,173,947	1,742,029
Plant, maintenance and operations	4,498,689	3,666,474
Security and monitoring services	134,784	108,734
Data processing services	717,404	608,747
Community services	81,677	353,328
Interest on long-term debt	1,197,310	1,142,361
Debt issuance costs and fees	5,961	5,956
Facilities acquisition and construction		13,813
Payments related to shared services arrangements	56,133	30,046
Payments to Juvenile Justice Alternative Education Programs	14,571	13,025
Total Expenses	42,202,588	39,507,390
Excess (deficiency) before special items and transfers	2,520,393	1,160,847
Special items	2,240	
Increase (Decrease) in Net Assets	2,522,633	1,160,847
Beginning net assets	15,965,050	14,804,233
Ending Net Assets	\$ 18,487,683	\$ 15,965,050

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

Governmental Activities

Governmental activities increased the District's net assets by \$2,522,633. Revenues are generated primarily from three sources. Property taxes, state-aid formula grants, and operating grants and contributions represent 91.7 percent of total revenues. The remaining 8.3 percent is generated from charges for services, investment earnings, and miscellaneous revenues.

	Total Revenues	% of Total Revenues
Property taxes	\$ 27,408,648	61%
State Aid - Formula Grants	9,103,632	20%
Operating grants and contributions	4,515,802	10%
Other revenue	3,697,139	8%
Total Revenues	\$ 44,725,221	100%

The primary functional expenses of the District are instruction and plant maintenance and operations, which represents 66 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	\$ 23,448,798	56%
Plant maintenance and operations	4,498,689	11%
Other expenses	14,255,101	34%
Total Expenses	\$ 42,202,588	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, *unreserved 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 \$12,739,999, an increase of \$888,924 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, unreserved, undesignated fund balance of the general fund was \$7,067,925, while total fund balance reached \$8,968,244. As a measure of the general fund's liquidity, it may be useful to compare both unreserved, undesignated fund balance and total fund balance to total fund expenditures.

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

Unreserved, undesignated fund balance represents 20 percent of total general fund expenditures, while total fund balance represents 25 percent of that same amount. The fund balance of the District's general fund increased by \$1,630,838 during the current fiscal year.

The debt service fund has a total fund balance of \$2,568,934, all of which is reserved for the payment of debt service. The net increase in the debt service fund balance during the current year of \$6,720 was in line with budgeted expectations.

The capital projects fund has a total fund balance of \$924,831, all of which is reserved for authorized construction and technology projects/enhancements. The net decrease in fund balance during the current year of \$781,087 was due to continued bond project expenditures.

General Fund Budgetary Highlights

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

	Budget	
	Original	Final Amended
Total revenues	\$ 35,263,649	\$ 36,146,690
Total expenditures	35,263,649	36,206,749
Net change in fund balance	\$	\$ (60,059)

The review of the final amended budget versus actual for the general fund reflected that revenues exceeded budgetary estimates and expenditures were less than budgetary estimates, thus eliminating the need to draw upon existing fund balances.

Capital Assets and Long-Term Liabilities

Capital Assets

The District's investment in capital assets for its governmental type activities as of August 31, 2007, 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 \$1,338,355. The following table summarizes the investment in capital assets as of August 31, 2007 and 2006.

	2007	2006
Land	\$ 1,289,174	\$ 1,289,174
Buildings and improvements	49,624,023	47,337,836
Furniture and equipment	4,355,540	3,941,784
Leased assets under capital lease	110,278	110,278
Construction in progress	269,664	1,792,296
Total	55,648,679	54,471,368
Accumulated depreciation	(24,698,193)	(22,770,465)
Net capital assets	\$ 30,950,486	\$ 31,700,903

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

Long-term Liabilities

At the end of the current fiscal year, the District had \$26,220,554 in bonded debt outstanding, a decrease of \$1,825,000 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, 2007, are as follows:

Outstanding 09/01/06	Issued	Retired	Outstanding 08/31/07
<u>\$ 28,045,554</u>	<u>\$</u>	<u>\$ (1,825,000)</u>	<u>\$ 26,220,554</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

- Appraised value used for the 2007-2008 budget preparation was up \$144 million, about 7.5% from the previous year.
- The Tax Rate for 2007-2008 is \$1.177 (\$1.04 for M&O; \$.137 for I&S). This year the legislature set the maximum M&O tax rate at \$1.00 but gave districts the option to assess four additional cents, which FISC passed. These four additional pennies have been referred to as "super pennies"
- Operating Expenses per student is \$7,593 for 2007-2008 based on the total budget.
- The District's 2007-2008 refined average daily attendance is budgeted to be 5,723 an increase of 2.2% from the previous year.

These indicators were taken into account when adopting the general fund budget for 2007-2008. The total Friendswood Independent School District adopted budget for 2007-2008 is \$44,308,895.

Expenditures are budgeted to increase 5.3% to 44.3 million. The majority of the increase is in the salary related area and utility expenses.

Homes in Friendswood Lakes, The Lakes of Falcon Ridge, and Hunter's Creek are still undergoing development. Development of property known as the West property, a 1,766 acre community, is expected to have 1,500 homes at its completion.

Recent commercial development includes Acadiana Center, located at FM 528 and Sunset, which has more than 60,000 square feet of office and retail space, and South Friendswood Plaza, a 14,425 square foot retail center located along 528 next to HEB.

The District passed a \$99,465,000 bond issue to include improvements of school buildings and school sites, new junior high building, natatorium, and improvements to the High School football stadium.

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

Requests for Information

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

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Basic Financial Statements

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FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET ASSETS
August 31, 2007

Exhibit A-1

<u>Data Control Codes</u>		<u>Governmental Activities</u>
Assets		
1110	Cash and cash equivalents	\$ 12,347,947
1225	Property taxes receivables, net	806,823
1240	Due from other governments	4,576,008
1267	Due from fiduciary funds	20,000
1290	Other receivables, net	106,752
1300	Inventories	226,706
1410	Deferred expenses	325,046
1420	Capital bond and other debt issuance costs	144,335
1430	Premium (Discount) on Issuance of Debt	2,777
	Capital assets not subject to depreciation:	
1510	Land	1,289,174
1580	Construction in progress	269,664
	Capital assets net of depreciation:	
1520	Buildings and improvements, net	28,274,375
1530	Furniture and equipment, net	1,117,270
1000	Total Assets	<u>49,506,877</u>
Liabilities		
2110	Accounts payable	963,908
2140	Interest payable	49,696
2150	Payroll deductions and withholdings	2,811
2160	Accrued wages payable	1,858,214
2180	Due to other governments	12,435
2190	Due to student groups	138,393
2300	Deferred revenue	308,933
2400	Payable from restricted assets	641,513
	Noncurrent Liabilities:	
2501	Due within one year	2,396,826
2502	Due in more than one year	24,646,465
2000	Total Liabilities	<u>31,019,194</u>
Net Assets		
3200	Invested in capital assets, net of related debt	4,986,547
	Restricted for:	
3820	Federal and state programs	161,249
3840	Food service	116,741
3850	Debt service	2,575,485
3860	Capital projects	924,831
3870	Campus activity	672,240
3900	Unrestricted	9,050,590
	Total Net Assets	<u>\$ 18,487,683</u>

See Notes to Basic Financial Statements

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FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
For the Year Ended August 31, 2007

Exhibit A-2

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 Activities
	Governmental activities:				
11	Instruction	\$ 23,448,798	\$ 536,993	\$ 2,878,300	\$ (20,033,505)
12	Instructional resources and media services	944,155		24,312	(919,843)
13	Curriculum and staff development	356,221		145,925	(210,296)
21	Instructional leadership	789,843		92,637	(697,206)
23	School leadership	2,003,723	12,624	98,762	(1,892,337)
31	Guidance, counseling, and evaluation services	905,059		57,057	(848,002)
32	Social work services	31,960		1,686	(30,274)
33	Health services	433,712		67,937	(365,775)
34	Student transportation	1,443,594		163,920	(1,279,674)
35	Food service	1,835,290	1,563,732	175,498	(96,060)
36	Extracurricular activities	1,129,757	156,810	123,381	(849,566)
41	General administration	2,173,947	57,511	64,517	(2,051,919)
51	Plant, maintenance and operations	4,498,689	46,183	83,575	(4,368,931)
52	Security and monitoring services	134,784			(134,784)
53	Data processing services	717,404		53,578	(663,826)
61	Community services	81,677	69,430	1,858	(10,389)
72	Interest on long-term debt	1,197,310	50,494	461,473	(685,343)
73	Debt issuance costs and fees	5,961			(5,961)
93	Payments related to shared services arrangements	56,133		14,408	(41,725)
95	Payments to Juvenile Justice Alternative Education Programs	14,571			(14,571)
TG	Total governmental activities	<u>\$ 42,202,588</u>	<u>\$ 2,493,777</u>	<u>\$ 4,508,824</u>	(35,199,987)

Data Control Codes		
	General revenues:	
	Taxes:	
MT	Property taxes, levied for general purposes	24,916,329
DT	Property taxes, levied for debt service	2,492,319
SF	State-aid formula grants	9,103,632
GC	Grants and contributions not restricted	6,978
IE	Investment earnings	923,834
MI	Miscellaneous	277,288
SI	Special item - gain on sale of asset	2,240
TR	Total general revenues, special items, and transfers	<u>37,722,620</u>
CN	Change in net assets	2,522,633
NB	Net assets - beginning	15,965,050
NE	Net assets - ending	<u>\$ 18,487,683</u>

See Notes to Basic Financial Statements

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
August 31, 2007

Data Control Codes		General Fund	Debt Service Fund	Capital Projects Fund
ASSETS				
1110	Cash and temporary investments	\$ 6,945,041	\$2,532,152	\$ 1,039,563
	Receivables:			
1220	Property taxes - delinquent	831,153	83,711	
1230	Allowance for uncollectible (credit)	(96,212)	(11,829)	
1240	Receivables from other governments	4,231,698	36,643	
1260	Due from other funds	285,535		10,166
1290	Other receivables	15,482	536	
1300	Inventories, at cost	226,706		
1410	Prepaid items	325,046		
	Total Assets	\$ 12,764,449	\$2,641,213	\$ 1,049,729
 LIABILITIES AND FUND BALANCE				
LIABILITIES:				
2110	Accounts payable	\$ 558,376	\$	\$ 109,941
2150	Payroll withholdings payable	2,811		
2160	Accrued wages payable	1,763,931		
2170	Due to other funds	117,719	16,032	14,957
2180	Payable to other governments			
2190	Due to student and employee groups	138,393		
2200	Accrued expenses	289,787		
2300	Deferred revenues	925,188	56,247	
2000	Total Liabilities	3,796,205	72,279	124,898
 FUND BALANCE:				
Reserved for:				
3410	Investments in inventories	226,706		
3420	Retirement of funded indebtedness		2,568,934	
3430	Prepaid items	325,046		
3440	Encumbrances	33,871		601,895
3450	Food service operations			
3470	Capital projects			322,936
3490	Other purposes	642,456		
Unreserved, Designated for:				
3590	Other purposes	672,240		
Unreserved, Undesignated Reported in:				
3600	General fund	7,067,925		
3610	Special revenue funds			
3000	Total Fund Balance	8,968,244	2,568,934	924,831
4000	Total Liabilities and Fund Balances	\$ 12,764,449	\$2,641,213	\$ 1,049,729

See Notes to Basic Financial Statements

Exhibit A-3

Other Governmental Funds	Total Governmental Funds
\$ 165,016	\$ 10,681,772
	914,864
	(108,041)
307,667	4,576,008
119,026	414,727
90,143	106,161
	226,706
	325,046
<u>\$ 681,852</u>	<u>\$ 17,137,243</u>

\$ 51,125	\$ 719,442
	2,811
94,283	1,858,214
246,019	394,727
12,435	12,435
	138,393
	289,787
	981,435
<u>403,862</u>	<u>4,397,244</u>

	226,706
	2,568,934
	325,046
1,607	637,373
115,134	115,134
	322,936
	642,456
	672,240
	7,067,925
<u>161,249</u>	<u>161,249</u>
<u>277,990</u>	<u>12,739,999</u>
<u>\$ 681,852</u>	<u>\$ 17,137,243</u>

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FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF BALANCE SHEET FOR GOVERNMENTAL
FUNDS TO STATEMENT OF NET ASSETS
August 31, 2007

Exhibit A-4

Data
Control
Codes

Total fund balance, governmental funds \$ 12,739,999

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 30,950,483

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). 672,502

Bond issuance costs are not financial resources and, therefore, are not reported as assets in governmental funds. These costs are to be amortized over the life of the bonds.

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	Claims payable	
4	General obligation bonds	(26,220,554)
5	Premiums on issuance	2,777
6	Bond issuance costs	144,335
7	Deferred charges on refunding	159,922
8	Accreted interest on premium compound interest bonds	(9,002)
9	Capital leases payable	(41,414)
9	Accrued compensated absences	(642,456)
10	Accrued interest payable	(49,696)
	Addition of Internal Service fund net assets	780,787

Total net assets - governmental activities \$ 18,487,683

See Notes to Basic Financial Statements

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - GOVERNMENTAL FUNDS
For the Year Ended August 31, 2007

Data Control Codes		General Fund	Debt Service Fund	Capital Projects Fund
REVENUES				
5700	Local, intermediate, and out-of-state	\$ 26,518,685	\$ 2,654,448	\$ 74,255
5800	State program revenues	10,637,708	461,473	
5900	Federal program revenues			
5020	Total Revenues	<u>37,156,393</u>	<u>3,115,921</u>	<u>74,255</u>
EXPENDITURES				
<i>Current:</i>				
0011	Instruction	20,596,149		
0012	Instruction resources and media services	897,755		
0013	Curriculum and instructional staff development	181,141		
0021	Instructional leadership	693,022		
0023	School leadership	1,904,409		
0031	Guidance, counseling and evaluation services	867,813		
0032	Social work services	30,153		
0033	Health services	365,042		
0034	Student transportation	1,361,864		155,054
0035	Food services			
0036	Extracurricular activities	1,026,653		
0041	General administration	2,063,487		
0051	Plant maintenance and operations	4,331,002		
0052	Security and monitoring services	127,570		
0053	Data processing services	652,385		
0061	Community services	77,187		
<i>Debt service:</i>				
0071	Principal on long-term debt	44,262	1,825,000	
0072	Interest on long-term debt	4,881	1,284,201	
<i>Capital outlay:</i>				
0081	Capital outlay	246,725		700,288
<i>Intergovernmental:</i>				
0093	Payments related to shared services arrangements	41,724		
0095	Payments to Juvenile Justice Alt. Ed. Prgm.	14,571		
6030	Total Expenditures	<u>35,527,795</u>	<u>3,109,201</u>	<u>855,342</u>
1100	Excess (deficiency) of revenues over expenditures	<u>1,628,598</u>	<u>6,720</u>	<u>(781,087)</u>
OTHER FINANCING SOURCES (USES)				
7912	Sale of real or personal property	2,240		
7080	Total other financing sources (uses)	<u>2,240</u>		
1200	Net change in fund balances	1,630,838	6,720	(781,087)
0100	Fund Balance - September 1 (Beginning)	<u>7,337,406</u>	<u>2,562,214</u>	<u>1,705,918</u>
3000	Fund Balance - August 31 (Ending)	<u>\$ 8,968,244</u>	<u>\$ 2,568,934</u>	<u>\$ 924,831</u>

See Notes to Basic Financial Statements

Exhibit A-5

<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 1,678,342	\$ 30,925,730
701,355	11,800,536
<u>1,728,755</u>	<u>1,728,755</u>
<u>4,108,452</u>	<u>44,455,021</u>
1,838,551	22,434,700
	897,755
142,397	323,538
60,019	753,041
179	1,904,588
13,908	881,721
	30,153
50,228	415,270
114,167	1,631,085
1,761,153	1,761,153
49,614	1,076,267
	2,063,487
	4,331,002
	127,570
31,374	683,759
	77,187
	1,869,262
	1,289,082
	947,013
14,409	56,133
	<u>14,571</u>
<u>4,075,999</u>	<u>43,568,337</u>
<u>32,453</u>	<u>886,684</u>
	2,240
	<u>2,240</u>
32,453	888,924
<u>245,537</u>	<u>11,851,075</u>
<u>\$ 277,990</u>	<u>\$ 12,739,999</u>

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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, 2007

Exhibit A-6

<u>Data Control Codes</u>		
	Net change in fund balances—total governmental funds (from A-5)	\$ 888,924
	Amounts reported for governmental activities in the statement of activities (A-2) 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.	(750,420)
2	Property tax revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	201,816
3	Repayment of bond principal is an expenditure in the governmental fund, but the repayment reduces long-term liabilities in the statement of net assets.	1,869,262
	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	126,812
5	Changes in bond issuance premiums	(617)
6	Bond issuance costs	801
7	Amortization of deferred loss on defeasance of bonds	(34,765)
8	Accreted interest on capital appreciation bonds and amortization of bond issuance costs	(6,420)
9	(Increase) decrease in long-term portion of workers' compensation benefits payable	
10	(Increase) decrease in long-term portion of accrued compensated absences payable	(103,823)
	Internal service funds are used by management to charge the costs of certain activities, such as insurance and printing, to individual funds. The net revenue (expense) of the internal service funds is reported with governmental funds.	331,063
	Change in net assets of governmental activities	<u>\$ 2,522,633</u>

See Notes to Basic Financial Statements

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
August 31, 2007

Exhibit A-7

Data Control Codes	Governmental Activities - Internal Service Funds
Assets	
Current Assets:	
1110-75 Cash and cash equivalents	\$ 1,666,175
Receivables:	
1290 Other receivables	591
Total Current Assets	<u>1,666,766</u>
1000 Total Assets	<u><u>\$ 1,666,766</u></u>
Liabilities	
Current Liabilities:	
2110 Accounts payable	\$ 244,466
Total Current Liabilities	<u>244,466</u>
Non-current Liabilities:	
2590 Claims and judgments	641,513
Total Non-current Liabilities	<u>641,513</u>
2000 Total Liabilities	<u><u>885,979</u></u>
Net Assets	
3900 Unrestricted net assets	780,787
3000 Total Net Assets	<u>780,787</u>
4000 Total Liabilities and Net Assets	<u><u>\$ 1,666,766</u></u>

See Notes to Basic Financial Statements.

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
For the Year Ended August 31, 2007

Exhibit A-8

<u>Data Control Codes</u>		<u>Governmental Activities - Internal Service Funds</u>
	Operating Revenues	
5749	Miscellaneous revenue from local sources	\$ 1,116,645
5754	Quasi-external interfund transactions	1,196,372
5020	Total Operating Revenues	<u>2,313,017</u>
	Operating Expenses	
6400	Claims expense and other operating expenses	2,048,098
6030	Total Operating Expenses	<u>2,048,098</u>
1200	Operating Income (Loss)	<u>264,919</u>
	Non-Operating Revenues (Expenses)	
7955	Investment earnings	66,144
	Total Nonoperating Revenues (Expenses)	<u>66,144</u>
	Income (Loss) before Transfers	331,063
1200	Change in Net Assets	<u>331,063</u>
0100	Net Assets - September 1 (Beginning)	449,724
3300	Net Assets - August 31 (Ending)	<u>\$ 780,787</u>

See Notes to Basic Financial Statements.

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended August 31, 2007

Exhibit A-9

	Non-major Internal Service Funds
	<u> </u>
Cash Flows from Operating Activities:	
Cash received from customers	\$ 1,116,645
Cash receipts from quasi-external operating activities with other funds	1,195,781
Cash payments for insurance claims	<u>(2,077,595)</u>
Net Cash Provided by (Used for) Operating Activities	<u>234,831</u>
Cash Flows from Investing Activities:	
Interest on investments	<u>66,144</u>
Net Cash Provided by Investing Activities	<u>66,144</u>
Net Increase in Cash and Cash Equivalents	300,975
Cash and Cash Equivalents at Beginning of Year	<u>1,365,200</u>
Cash and Cash Equivalents at End of Year	<u>\$ 1,666,175</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating Income (Loss)	\$ 264,919
Change in Assets and Liabilities	
Decrease (increase) in Receivables	(592)
Increase (decrease) in Accounts Payable	287,429
Increase (decrease) in Accrued Expenses	<u>(316,925)</u>
Net Cash Provided by (Used for) Operating Activities	<u>\$ 234,831</u>

See Notes to Basic Financial Statements.

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
August 31, 2007

Exhibit A-10

<u>Data Control Codes</u>		<u>Private Purpose Trust Funds</u>	<u>Agency Fund</u>
	Assets		
1110	Cash and cash equivalents	\$ 14,528	\$ 631,557
	Receivables:		
1290	Other receivables		20,000
	Total Assets	<u>\$ 14,528</u>	<u>\$ 651,557</u>
	Liabilities		
2110	Accounts payable	\$	323
2150	Payroll deductions and withholdings		19,964
2170	Due to other funds		20,000
2190	Due to student groups		611,270
2000	Total Liabilities		<u>\$ 651,557</u>
	NET ASSETS:		
3800	Restricted	<u>\$ 14,528</u>	

See Notes to Basic Financial Statements.

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
For the Year Ended August 31, 2007

Exhibit A-11

	<u>Private Purpose Trust Funds</u>
Additions	
Gifts and contributions	\$
Earnings on investments	
Total additions	
Deductions	
Non-operating expenses	
Total deductions	
Change in net assets	
Net assets beginning of year	14,528
Net assets end of year	<u>\$ 14,528</u>

See Notes to Basic Financial Statements.

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2007

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.

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2007

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.

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.

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2007

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, 2007. 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 12 percent of outstanding property taxes and related penalties and interest at August 31, 2007. 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.

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2007

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.

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2007

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

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

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.

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2007

Note 1 - Summary of Significant Accounting Policies (continued)

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 2007, the District invested in Investor's Cash Trust Money Market Mutual Fund, the State of Texas Texpool, the State of Texas TexStar Investment Pool, MBIA Government Class Investment Pool, and the Texas Association of School Boards Lone Star Investment Pool. 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. The Money Market Mutual Fund listed below consists of shares owned in Investors Cash Trust, an SEC registered money market fund with the stated objective of maintaining a stable net asset value of \$1.00. 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.

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2007

Note 2 - Deposits and Investments (continued)

Investments (continued)

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.

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

	Fair Market Value	Weighted Average Maturity (In days)
Governmental Activities:		
Cash and deposits	<u>\$ 1,629,910</u>	N/A
<i>Investments</i>		
Local Government Investment Pools		
Lone Star	2,466,148	22
MBIA Texas Class	2,286,040	41
Texpool	1,018,387	31
TexStar	3,199,927	16
	<u>8,970,502</u>	
Investment Securities		
ICT Money Market Mutual Fund	1,747,535	47
	<u>1,747,535</u>	
Total Investments	<u>\$ 10,718,037</u>	29
Total Governmental Activities	<u>12,347,947</u>	
Fiduciary Funds:		
Cash and deposits	646,085	
Total Fiduciary Funds	<u>646,085</u>	
Total	<u>\$ 12,994,032</u>	

Interest Rate Risk

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

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2007

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, 2007, the District's investment in Texpool was rated AAAM by Standard and Poor's. The District's investment in Lone Star Investment Pool was rated AAAs by Standard and Poor's. The money market fund (ICT) was rated AAAM by Standard and Poor's. The District's investment in MBIA Texas Class Pool was rated AAA by Fitch Ratings, Ltd. The District's investment in TexStar Investment Pool was rated AAAM by 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, 2007 consisted of the following:

Investment Type	Fair Market Value	Percentage of Portfolio
Lone Star	2,466,148	23%
MBIA Texas Class	2,286,040	21%
Texpool	1,018,387	10%
TexStar	3,199,927	30%
ICT Money Market Mutual Fund	1,747,535	16%

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, 2007, is included in investment earnings as follows:

Investment earnings	\$ 923,834
Net increase (decrease) in investment values	
Total Investment earnings	\$ 923,834

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2007

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	\$ 831,153	\$ 83,711	\$	\$	\$ 914,864
Due from other governments	4,231,698	36,643		307,667	4,576,008
Other	15,482	536		90,734	106,752
Gross receivables	5,078,333	120,890		398,401	5,597,624
Less allowance for doubtful accounts	(96,212)	(11,829)			(108,041)
Net total receivables	<u>\$ 4,982,121</u>	<u>\$ 109,061</u>	<u>\$</u>	<u>\$ 398,401</u>	<u>\$ 5,489,583</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)	\$ 734,941	\$	\$ 734,941
Delinquent property taxes receivable (Debt Service Fund)	71,882		71,882
Advanced collection of tuition and fees		308,933	308,933
	<u>\$ 806,823</u>	<u>\$ 308,933</u>	<u>\$ 1,115,756</u>

Note 4 - Capital Assets

Capital asset activity for the year ended August 31, 2007, was as follows:

	<u>Balance August 31, 2006</u>	<u>Additions</u>	<u>(Retirements and Transfers)</u>	<u>Balance August 31, 2007</u>
Capital assets, not being depreciated				
Land	\$ 1,289,174	\$	\$	1,289,174
Construction in progress	1,792,296	700,288	(2,222,920)	269,664
Total Capital assets, not being depreciated	<u>3,081,470</u>	<u>700,288</u>	<u>(2,222,920)</u>	<u>1,558,838</u>
Capital assets, being depreciated				
Buildings and improvements	47,337,836	293,018	1,993,168	49,624,022
Furniture and equipment	4,052,062	345,049	68,707	4,465,818
Total Capital assets, being depreciated	<u>51,389,898</u>	<u>638,067</u>	<u>2,061,875</u>	<u>54,089,840</u>
Less accumulated depreciation for:				
Buildings and improvements	(19,692,334)	(1,657,313)		(21,349,647)
Furniture and Equipment	(3,078,131)	(431,462)	161,045	(3,348,548)
Total Accumulated depreciation	<u>(22,770,465)</u>	<u>(2,088,775)</u>	<u>161,045</u>	<u>(24,698,195)</u>
Governmental Capital Assets	<u>\$ 31,700,903</u>	<u>\$ (750,420)</u>	<u>\$</u>	<u>\$ 30,950,483</u>

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2007

Note 4 - Capital Assets (continued)

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

Function	Depreciation Expense
Instruction	1,164,712
Instructional resources and media services	50,770
Curriculum and staff development	10,244
Instructional leadership	39,190
School leadership	107,694
Guidance, counseling and evaluation services	49,075
Social work services	1,705
Health services	20,643
Student transportation	77,013
Food Services	99,593
Extracurricular activities	58,057
General administration	116,690
Plant maintenance and operations	244,918
Security and monitoring services	7,214
Data processing services	36,892
Community services	4,365
	<u><u>\$ 2,088,775</u></u>

Construction Commitments

Project	Approved Construction Budget	Construction in Progress	Remaining Commitment
Site Work/Drainage Project	\$ 302,216	\$ 243,789	\$ 58,427
Locker Room/Auditorium Lights Project	627,770	25,875	601,895
	<u><u>\$ 929,986</u></u>	<u><u>\$ 269,664</u></u>	<u><u>\$ 660,322</u></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.

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2007

The composition of interfund balances as of August 31, 2007, is as follows:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>	<u>Net</u>
Governmental Activities:			
General Fund	285,535	117,720	\$ 167,815
Debt Service Fund		16,032	(16,032)
Capital Projects Fund	10,166	14,957	(4,791)
Nonmajor Governmental Funds	119,026	246,018	(126,992)
Total Governmental Activities	<u>414,727</u>	<u>394,727</u>	20,000
Fiduciary Funds		20,000	(20,000)
Total	<u>\$ 414,727</u>	<u>\$ 414,727</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, 2006	\$ 809,633
Additions: New entrants and salary increments	195,765
Deductions: Payments to participants	<u>(73,155)</u>
Balance, August 31, 2007	<u>\$ 932,243</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, 2007, the legal debt margin was \$155,605,184.

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, 2007

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2007

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, 2007 were as follows:

Issue	Original issuance amount	Interest Rate (%)	Maturity Date	Debt Outstanding
Unlimited Tax Schoolhouse Bonds, Series 1998	\$ 17,800,000	4.25% to 6.25%	2/15/2018	\$ 12,700,000
Unlimited Tax Refunding Bonds, Series 1999	9,285,000	4.00% to 4.40%	2/15/2012	5,395,000
Unlimited Tax Schoolhouse Bonds, Series 2006	5,590,554	3.78%	2/15/2017	5,590,554
Unlimited Tax Refunding Bonds, Series 2006	2,725,000	3.60%	2/15/2013	2,535,000
				<u>\$ 26,220,554</u>

Debt service requirements to maturity are as follows:

Year Ending August 31,	Principal	Interest	Totals
2008	\$ 2,085,000	\$ 1,073,704	\$ 3,158,704
2009	2,165,000	987,959	3,152,959
2010	2,360,000	894,872	3,254,872
2011	2,455,000	794,534	3,249,534
2012	2,545,000	689,617	3,234,617
2013	2,370,554	611,748	2,982,302
2014	2,525,000	463,370	2,988,370
2015	2,620,000	356,229	2,976,229
2016	2,745,000	244,480	2,989,480
2017	2,725,000	130,208	2,855,208
2018	1,625,000	36,563	1,661,563
	<u>\$ 26,220,554</u>	<u>\$ 6,283,284</u>	<u>\$ 32,503,838</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:

Series	Accreted Value	Principal	Accreted Interest	Maturity Value	Maturity Dates
2006	\$ 68,980	\$ 59,978	\$ 9,002	\$ 200,000	2013
	<u>\$ 68,980</u>	<u>\$ 59,978</u>	<u>\$ 9,002</u>	<u>\$ 200,000</u>	

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2007

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, 2007, \$7,640,000 of previously refunded debt outstanding was considered defeased.

Capital Lease Obligations

The District entered into a capital lease agreement in the amount of \$110,278 to purchase equipment. The effective interest rate for the lease is 5.782 percent. Local revenues are used to retire capital lease obligations. The capital lease matures annually through May 2010.

The following schedule presents the payment requirements to maturity:

Year Ending August 31,	Principal	Interest	Totals
2008	\$ 22,039	\$ 2,563	\$ 24,602
2009	19,375	1,150	20,525
	<u>\$ 41,414</u>	<u>\$ 3,713</u>	<u>\$ 45,127</u>

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, 2007:

	Balance August 31, 2006	Additions	Retirements	Balance August 31, 2007	Due Within One Year
General obligation bonds	\$ 28,045,554	\$	\$ (1,825,000)	\$ 26,220,554	\$ 2,085,000
Less deferred amounts:					
For issuance premiums/discounts	(3,394)		617	(2,777)	
Gain or loss on refunding bonds	(194,687)		34,765	(159,922)	
Bond issuance costs	(143,534)	(20,089)	19,288	(144,335)	
Accreted interest on premium compound interest bonds	2,582	6,420		9,002	
Capital lease payable	66,028		(24,614)	41,414	22,039
Accrued compensated absences	809,633	195,765	(73,155)	932,243	289,787
	<u>\$ 28,582,182</u>	<u>\$ 182,096</u>	<u>\$ (1,868,099)</u>	<u>\$ 26,896,179</u>	<u>\$ 2,396,826</u>

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2007

Note 8 - Fund Balance

Other reserves of fund balance include the following reservations of funds:

Retirement / Sick Leave Benefits 642,456

Other designated fund balance includes the following designations of funds:

Campus Activities 672,240

Note 9 - Revenues from Local, Intermediate, and Out-of-State Sources

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

	General Fund	Debt Service Fund	Capital Projects Fund	Other Governmental Funds	Total
Property Taxes	\$ 24,730,467	2,452,237	\$	\$	\$ 27,182,704
Investment Income	605,352	178,083	74,255		857,690
Co-curricular student activities	729,266				729,266
Food Sales				1,563,732	1,563,732
Other	453,600	24,128		114,610	592,338
	\$ 26,518,685	\$ 2,654,448	\$ 74,255	\$ 1,678,342	\$ 30,925,730

Note 10 - 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, 2007. The imputed interest on the leases is not readily determinable.

Rental expenditures during the year amounted to \$313,739.

Note 11 – 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.

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2007

Note 11 – Pension Information (continued)

Funding Policy

State law provides for fiscal years 2007, 2006, and 2005, a state contribution rate of 6.0 percent and a member contribution rate of 6.4 percent. In certain instances, the reporting district is required to make all or a portion of the state’s 6.0 percent contribution. Contribution requirements are not actuarially determined but are legally established each biennium pursuant to the following state funding policy: (1) The state constitution requires the legislature to establish a member contribution rate of not less than 6.0 percent of the member’s annual compensation and a state contribution rate of not less than 6.0 percent and not more than 10.0 percent of the aggregate annual compensation of all members of the system during that fiscal year; (2) A state statute prohibits benefit improvements or contribution reductions if, as a result of the particular action, the time required to amortize TRS’s unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action.

State contributions to TRS made on behalf of the District’s employees for the years ended August 31, 2007, 2006 and 2005 were \$1,308,884, \$1,169,517, and \$1,123,118, respectively. The District paid additional state contributions for the years ended August 31, 2007, 2006 and 2005 in the amounts of \$199,624, \$194,572, and \$197,318, respectively, on the portion of the employees’ salaries that exceeded the statutory minimum.

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 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, 2007 was as follows:

Contributions to pension plan	\$ 1,308,884
Insurance contributions (TRS Care)	218,224
	<u>\$ 1,527,108</u>

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2007

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 established a limited risk management program for health insurance. The District contributes a minimum of \$285.90 per month per employee that participates in the plan; employees, at their option, authorize payroll withholdings to pay contributions or premiums for dependents. Premiums are paid into the internal service fund by all other funds and are available to pay claims, claim reserves, and administrative costs of the program. These interfund premiums are reported as revenues in the internal service 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 based on the District's historical experience. An excess coverage insurance policy covers individual claims in excess of \$100,000.

The District also has an aggregate excess insurance policy with an excess limit of \$2,834,405. 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>
2006	\$ 348,733	\$ 2,551,808	\$ 2,489,914	\$ 410,627
2007	410,627	1,362,848	1,679,773	93,702

On September 1, 2007, the District changed from self-funded medical insurance coverage for its employees to the TRS-Care insurance provided by the Teacher's Retirement System of Texas.

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2007

Note 13 - Risk Management (Continued)

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.

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>
2006	\$ 482,017	\$ 64,105	\$ 127,294	\$ 418,828
2007	418,828	497,300	368,317	547,811

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2007

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 4.1 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	\$ 14,586
	<u>14,586</u>
Expenditures:	
Payroll costs	13,812
Contract services	292
Supplies and materials	438
Other operating costs	45
	<u>14,586</u>
Total expenditures	\$ 14,586

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 3.5 percent of the activity of the shared services arrangement is attributable to the District’s participation, the District does not account for revenues or expenditures in this program and does not disclose them in these financial statements. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, Clear Creek ISD, nor does the District have a net equity interest in the fiscal agent.

Revenues:	
Local revenue	\$ 41,724
	<u>41,724</u>
Expenditures:	
Payroll costs	32,962
Contract services	5,841
Supplies and materials	2,503
Other operating costs	417
	<u>41,724</u>
Total expenditures	\$ 41,724

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2007

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 any arbitrage liability as of August 31, 2007.

Note 17 – Other Post-employment Benefits

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

Note 18 – Subsequent Event

Voters approved bonds in the amount of \$99,465,000 during the November 2007 bond election.

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Required Supplementary Information

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FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the year ended August 31, 2007

Exhibit B-1

Data Control Codes		Budgeted Amounts		Actual Amounts, Budgetary Basis	Variance with Final Budget - Positive (Negative)
		Original	Final		
	REVENUES				
5700	Local revenues	\$24,838,572	\$25,721,613	\$26,518,685	\$ 797,072
5800	State program revenues	10,425,077	10,425,077	10,637,708	212,631
	Total Revenues	<u>35,263,649</u>	<u>36,146,690</u>	<u>37,156,393</u>	<u>1,009,703</u>
	EXPENDITURES				
	<i>Current:</i>				
0011	Instruction	22,054,380	21,511,814	20,596,149	915,665
0012	Instruction resources and media services	888,601	900,000	897,755	2,245
0013	Curriculum and instructional staff development	70,337	190,000	181,141	8,859
0021	Instructional leadership	571,772	700,000	693,022	6,978
0023	School leadership	1,933,264	1,996,238	1,904,409	91,829
0031	Guidance, counseling and evaluation services	812,862	866,475	867,813	(1,338)
0032	Social work services		35,000	30,153	4,847
0033	Health services	341,174	358,691	365,042	(6,351)
0034	Student transportation	1,366,456	1,400,000	1,361,864	38,136
0036	Extracurricular activities	834,805	1,000,000	1,026,653	(26,653)
0041	General administration	1,660,050	2,000,000	2,063,487	(63,487)
0051	Plant maintenance and operations	3,836,054	4,251,231	4,331,002	(79,771)
0052	Security and monitoring services	64,000	140,000	127,570	12,430
0053	Data processing services	540,037	625,000	652,385	(27,385)
0061	Community services	187,557	130,000	77,187	52,813
	<i>Debt Service:</i>				
0071	Principal on long-term debt			44,262	(44,262)
0072	Interest on long-term debt			4,881	(4,881)
	<i>Capital outlay:</i>				
0081	Facilities acquisition and construction			246,725	(246,725)
	<i>Intergovernmental:</i>				
0093	Payments related to shared services arrangements	60,500	60,500	41,724	18,776
0095	Payments to Juvenile Justice Alt. Ed. Prgm.	41,800	41,800	14,571	27,229
	Total Expenditures	<u>35,263,649</u>	<u>36,206,749</u>	<u>35,527,795</u>	<u>678,954</u>
1100	Excess (deficiency) of revenues over expenditures		<u>(60,059)</u>	<u>1,628,598</u>	<u>1,688,657</u>
	OTHER FINANCING SOURCES (USES)				
7912	Sale of land			2,240	2,240
	Total other financing sources and uses			<u>2,240</u>	<u>2,240</u>
	Net change in fund balances		(60,059)	1,630,838	1,690,897
	Fund balances - beginning	<u>7,337,406</u>	<u>7,337,406</u>	<u>7,337,406</u>	
	Fund balances - ending	<u>\$ 7,337,406</u>	<u>\$ 7,277,347</u>	<u>\$ 8,968,244</u>	<u>\$ 1,690,897</u>

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

For the Year Ended August 31, 2007

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, 2007.

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, 2006. The budget was formally adopted by the Board of Trustees at a duly advertised public meeting prior to the expenditure of funds. The final amended budget is filed with the Texas Education Agency (TEA) through inclusion in the annual financial and compliance report.

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

B. EXPENDITURES IN EXCESS OF APPROPRIATIONS

The District exceeded its general fund budget in the following functions during the current fiscal year:

Guidance , counseling and evaluation services	\$	1,338
Health services		6,351
Extracurricular activities		26,653
General administration		63,487
Plant maintenance and operations		79,771
Data processing services		27,385
Principal on long-term debt		44,262
Interest on long-term debt		4,881
Facilities acquisition and construction		246,725

Other Supplementary Information

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET
ALL NONMAJOR GOVERNMENTAL FUNDS
August 31, 2007

	204	211	224
Data Control Codes	Vocational Ed - Tech Prep	ESEA Title I, Part A	IDEA-B Formula
ASSETS			
1110	Cash and temporary investments	\$	\$ 12,078
	Receivables:		
1240	Receivables from other governments		47,027
1260	Due from other funds		
1290	Other receivables		
1000	Total Assets	<u>\$</u>	<u>\$ 59,105</u>
 LIABILITIES AND FUND BALANCES			
Liabilities:			
Current Liabilities:			
2110	Accounts payable	\$	\$ 7,773
2160	Accrued wages payable		38,897
2170	Due to other funds		
2180	Due to other governments		12,435
2000	Total Liabilities	<u>\$</u>	<u>\$ 59,105</u>
 Fund Balance:			
Reserved for:			
3440	Encumbrances		
3450	Food service operations		
Unreserved, Undesignated Reported in:			
3610	Special revenue funds		
3000	Total Fund Balances	<u>\$</u>	<u>\$ 59,105</u>
4000	Total Liabilities and Fund Balance	<u>\$</u>	<u>\$ 59,105</u>

225	226	240	243	244	255	262
<u>IDEA-B Preschool Grant</u>	<u>IDEA-B Discretionary</u>	<u>Child Nutrition</u>	<u>Vocational Ed - Tech Prep</u>	<u>Vocational Ed -Basic</u>	<u>Title II, Part A</u>	<u>Enhancing Ed Through Tech</u>
\$	\$	\$ 9,349	\$	\$	\$	\$
957	177,070	2,370 119,026			57,255	
<u>\$ 957</u>	<u>\$ 177,070</u>	<u>\$ 130,745</u>	<u>\$</u>	<u>\$</u>	<u>\$ 57,255</u>	<u>\$</u>
\$	\$	\$ 742	\$	\$	\$ 25	\$
957	177,070	13,262			57,230	
<u>957</u>	<u>177,070</u>	<u>14,004</u>	<u></u>	<u></u>	<u>57,255</u>	<u></u>
		1,607 115,134				
		116,741				
<u>\$ 957</u>	<u>\$ 177,070</u>	<u>\$ 130,745</u>	<u>\$</u>	<u>\$</u>	<u>\$ 57,255</u>	<u>\$</u>

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET
ALL NONMAJOR GOVERNMENTAL FUNDS
August 31, 2007

Data Control Codes	269 Title V, Part A	282 ESEA, Title IV - Safe and Drug Free Nat'l	350 SSA-Title III, Part A, ELA
ASSETS			
1110	Cash and temporary investments	\$	\$
	Receivables:		
1240	Receivables from other governments	1,959	2,265
1260	Due from other funds		
1290	Other receivables		
1000	Total Assets	\$ 1,959	\$ 2,265
 LIABILITIES AND FUND BALANCES			
Liabilities:			
Current Liabilities:			
2110	Accounts payable	\$ 383	\$
2160	Accrued wages payable		2,249
2170	Due to other funds	1,576	16
2180	Due to other governments		
2000	Total Liabilities	1,959	2,265
Fund Balance:			
Reserved for:			
3440	Encumbrances		
3450	Food service operations		
Unreserved, Undesignated Reported in:			
3610	Special revenue funds		
3000	Total Fund Balances		
4000	Total Liabilities and Fund Balance	\$ 1,959	\$ 2,265

393	397	404	411	429 State Funded Special Revenue Funds	480	Total Nonmajor Governmental Funds
Texas Successful Schools	Advanced Placement Incentive	Student Succ. Init- Acc REA	Technology Allotment		Education Foundation Grants	
\$ 2,067	\$ 24,117	\$	\$ 16,712	\$ 95,753	\$ 4,940	\$ 165,016
		14,061	4,703			307,667
						119,026
					90,143	90,143
<u>\$ 2,067</u>	<u>\$ 24,117</u>	<u>\$ 14,061</u>	<u>\$ 21,415</u>	<u>\$ 95,753</u>	<u>\$ 95,083</u>	<u>\$ 681,852</u>
\$	\$ 613	\$	\$ 2,980	\$ 38,341	\$ 268	\$ 51,125
		3,934		34,984		94,283
		10,127				246,019
						12,435
	<u>613</u>	<u>14,061</u>	<u>2,980</u>	<u>73,325</u>	<u>268</u>	<u>403,862</u>
						1,607
						115,134
<u>2,067</u>	<u>23,504</u>		<u>18,435</u>	<u>22,428</u>	<u>94,815</u>	<u>161,249</u>
<u>2,067</u>	<u>23,504</u>		<u>18,435</u>	<u>22,428</u>	<u>94,815</u>	<u>277,990</u>
<u>\$ 2,067</u>	<u>\$ 24,117</u>	<u>\$ 14,061</u>	<u>\$ 21,415</u>	<u>\$ 95,753</u>	<u>\$ 95,083</u>	<u>\$ 681,852</u>

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - ALL NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended August 31, 2007

	204	211	224
Data Control Codes	Title IV, Safe & Drug Free	ESEA Title I, Part A	IDEA-B Formula
REVENUES			
5700 Local, intermediate, and out-of-state	\$	\$	\$
5800 State program revenues			
5900 Federal program revenues	11,643	110,542	971,567
5020 Total Revenues	<u>11,643</u>	<u>110,542</u>	<u>971,567</u>
EXPENDITURES			
Current:			
0011 Instruction		110,542	838,097
0013 Curriculum and instructional staff development			3,064
0021 Instructional leadership			1,509
0023 School leadership			
0031 Guidance, counseling and evaluation services	11,643		
0033 Health services			321
0034 Student transportation			114,167
0035 Food service			
0036 Extracurricular activities			
0053 Data processing services			
Intergovernmental:			
0093 Payments related to shared services arrangement			14,409
6030 Total Expenditures	<u>11,643</u>	<u>110,542</u>	<u>971,567</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>

225	226	240	243	244	255	262
IDEA-B Preschool Grant	IDEA-B Discretionary	Child Nutrition	Vocational Ed - Tech Prep	Vocational Ed -Basic	Title II, Part A	Enhancing Ed Through Tech
\$	\$	\$ 1,588,199 5,674	\$	\$	\$	\$
12,183	252,134	169,824	6,383	31,935	139,585	956
12,183	252,134	1,763,697	6,383	31,935	139,585	956
12,183	202,227		6,383	31,935		
					136,214 3,192 179	956
	49,907					
		1,761,153				
12,183	252,134	1,761,153	6,383	31,935	139,585	956
		2,544				
		2,544				
		114,197				
\$	\$	\$ 116,741	\$	\$	\$	\$

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - ALL NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended August 31, 2007

Data Control Codes	269	282	350
	Title V, Part A	ESEA, Title IV - Safe and Drug Free Nat'l	SSA-Title III, Part A, ELA
	<u> </u>	<u> </u>	<u> </u>
REVENUES			
5700	Local, intermediate, and out-of-state	\$	\$
5800	State program revenues		
5900	Federal program revenues	15,223	2,265
5020	Total Revenues	<u>15,223</u>	<u>4,515</u>
EXPENDITURES			
Current:			
0011	Instruction	5,746	3,851
0013	Curriculum and instructional staff development	542	664
0021	Instructional leadership	8,935	
0023	School leadership		
0031	Guidance, counseling and evaluation services		2,265
0033	Health services		
0034	Student transportation		
0035	Food service		
0036	Extracurricular activities		
0053	Data processing services		
Intergovernmental:			
0093	Payments related to shared services arrangement		
6030	Total Expenditures	<u>15,223</u>	<u>4,515</u>
1100	Excess (deficiency) of revenues over expenditures	<u> </u>	<u> </u>
OTHER FINANCING SOURCES (USES)			
7915	Transfers in		
8911	Transfers out		
7080	Total other financing sources and uses	<u> </u>	<u> </u>
1200	Net change in fund balances		
0100	Fund balance - September 1 (beginning)	<u> </u>	<u> </u>
3000	Fund balance - August 31 (ending)	<u>\$</u>	<u>\$</u>

393	397	404	411	429	480	
Texas Successful Schools	Advanced Placement Incentive	Student Succ. Init- Acc REA	Technology Allotment	State Funded Special Revenue Funds	Education Foundation Grants	Total-Other Governmental Funds
\$	\$	\$	\$	\$	\$ 90,143	\$ 1,678,342
	2,094	34,061	148,829	510,697		701,355
						1,728,755
	2,094	34,061	148,829	510,697	90,143	4,108,452
	18,941	34,061	131,743	442,842		1,838,551
	1,068		845			142,397
				45,427		60,019
						179
						13,908
						50,228
						114,167
						1,761,153
					49,614	49,614
			31,374			31,374
						14,409
	20,009	34,061	163,962	488,269	49,614	4,075,999
	(17,915)		(15,133)	22,428	40,529	32,453
	(17,915)		(15,133)	22,428	40,529	32,453
2,067	41,419		33,568		54,286	245,537
\$ 2,067	\$ 23,504	\$	\$ 18,435	\$ 22,428	\$ 94,815	\$ 277,990

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FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENTS OF NET ASSETS
INTERNAL SERVICE FUNDS
August 31, 2007

Exhibit C-3

Data Control Codes	753 Employee Insurance Fund	755 Workers Comp Fund	Total
Assets			
Current assets:			
1110	\$ 297,379	\$ 1,368,796	\$ 1,666,175
Receivables:			
1290		591	591
	Total Current Assets	1,369,387	1,666,766
1000	Total Assets	1,369,387	1,666,766
Liabilities			
Current Liabilities:			
2110	\$ 170,332	\$ 74,134	\$ 244,466
	Total current liabilities	74,134	244,466
Non-current Liabilities:			
2590	93,702	547,811	641,513
	Total Non-current Liabilities	547,811	641,513
2000	Total Liabilities	621,945	885,979
Net Assets			
3900	33,345	747,442	780,787
3000	Total Net Assets	747,442	780,787
4000	Total Liabilities and Net Assets	1,369,387	1,666,766

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT

Exhibit C-4

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

INTERNAL SERVICE FUNDS

For the Year Ended August 31, 2007

Data Control Codes	753 Employee Insurance Fund	755 Workers Comp Fund	Total
Operating Revenues			
5749	Miscellaneous revenue from local sources	\$ 1,116,645	\$ 1,116,645
5754	Quasi-external interfund transactions	1,045,684	1,196,372
5020	Total operating revenues	<u>2,162,329</u>	<u>2,313,017</u>
Operating Expenses			
6400	Claims expense and other operating expenses	1,679,773	2,048,098
6030	Total Operating Expenses	<u>1,679,773</u>	<u>2,048,098</u>
1200	Operating Income (Loss)	<u>482,556</u>	<u>264,919</u>
Non-Operating Revenues (Expenses)			
7955	Earnings - temporary deposits and investments	1,422	66,144
	Total Nonoperating Revenues	<u>1,422</u>	<u>66,144</u>
	Income (Loss) before Transfers	483,978	331,063
1200	Change in Net Assets	<u>483,978</u>	<u>331,063</u>
Net Assets			
0100	Net Assets - September 1 (Beginning)	<u>(450,633)</u>	<u>449,724</u>
3300	Net Assets - August 31 (Ending)	<u>\$ 33,345</u>	<u>\$ 780,787</u>

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
For the Year Ended August 31, 2007

Exhibit C-5

	753	755	
	<u>Employee Insurance Fund</u>	<u>Workers Comp Fund</u>	<u>Total</u>
Increase (Decrease) in Cash and Cash Equivalents			
Cash Flows from Operating Activities:			
Cash received from user charges	\$ 1,116,645	\$	\$ 1,116,645
Cash receipts from quasi-external operating activities with other funds	1,045,684	150,097	1,195,781
Cash payments for insurance claims	<u>(1,855,707)</u>	<u>(221,888)</u>	<u>(2,077,595)</u>
Net Cash Provided by (Used for) Operating Activities	<u>306,622</u>	<u>(71,791)</u>	<u>234,831</u>
Cash Flows from Investing Activities:			
Investment proceeds (net)			
Interest on investments	1,422	64,722	66,144
Net Cash Provided by Investing Activities	<u>1,422</u>	<u>64,722</u>	<u>66,144</u>
Net Increase in Cash and Cash Equivalents	308,044	(7,069)	300,975
Cash and Cash Equivalents at Beginning of Year	<u>(10,665)</u>	<u>1,375,865</u>	<u>1,365,200</u>
Cash and Cash Equivalents at End of Year	<u>\$ 297,379</u>	<u>\$ 1,368,796</u>	<u>\$ 1,666,175</u>
Reconciliation to Balance Sheet			
Cash and Cash Equivalents Per Cash Flow	\$ 297,379	\$ 1,368,796	\$ 1,666,175
Cash and Cash Equivalents per Balance Sheet	<u>\$ 297,379</u>	<u>\$ 1,368,796</u>	<u>\$ 1,666,175</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:			
Operating Income (Loss)	\$ 482,556	\$ (217,637)	\$ 264,919
Change in Assets and Liabilities			
Decrease (increase) in Receivables		(592)	(592)
Increase (decrease) in Accounts Payable	140,991	146,438	287,429
Increase (decrease) in Accrued Expenses	<u>(316,925)</u>	<u></u>	<u>(316,925)</u>
Net Cash Provided by (Used for) Operating Activities	<u>\$ 306,622</u>	<u>\$ (71,791)</u>	<u>\$ 234,831</u>

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
August 31, 2007

Exhibit C-6

Data Control Codes		891 Cline Scholarship Fund	892 Winston Scholarship Fund	Total Private Purpose Trust Funds
	Assets			
1110	Cash and cash equivalents	\$ 2,232	\$ 12,296	\$ 14,528
	Total Assets	\$ 2,232	\$ 12,296	\$ 14,528
	Net Assets			
3800	Restricted	\$ 2,232	\$ 12,296	\$ 14,528

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
For the Year Ended August 31, 2007

Exhibit C-7

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

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF DELINQUENT TAXES RECEIVABLE

For the year ended August 31, 2007

<u>Last Ten Fiscal Years</u>	<u>Tax Rates</u>		<u>Net Assessed/Appraised Value For School Tax Purposes</u>	<u>Beginning Balance 8/31/06</u>
	<u>1</u>	<u>2</u>		
	<u>Maintenance</u>	<u>Debt Service</u>		
1998 and prior	Various	Various	Various	\$ 48,482
1999	\$ 1.432700	\$ 0.239300	897,659,539	7,709
2000	1.388000	0.147000	996,486,515	10,774
2001	1.448000	0.137000	1,084,906,369	11,475
2002	1.480000	0.137000	1,199,063,080	20,893
2003	1.500000	0.137000	1,322,337,607	47,402
2004	1.500000	0.137000	1,457,665,058	68,704
2005	1.500000	0.137000	1,529,840,326	99,622
2006	1.500000	0.137000	1,624,895,916	290,900
2007	1.370000	0.137000	1,789,587,724	
1000 TOTALS				<u>\$ 605,961</u>

EXHIBIT D-1

20	30	30a	40	50
Current Year's Total Levy	Maintenance Total Collections	Debt Service Total Collections	Entire Year's Adjustments	Ending Balance 8/31/07
\$	\$ 11,487	\$ 1,088	\$ (6,665)	\$ 29,242
	649	62		6,998
	1,081	107		9,586
	1,600	151	(1,013)	8,711
	1,735	161	(1,053)	17,944
	12,623	1,153	5,595	39,221
	20,582	1,880	6,195	52,437
	51,091	4,666	8,158	52,023
	201,231	18,379	51	71,341
<u>26,973,815</u>	<u>24,187,351</u>	<u>2,418,735</u>	<u>(4,728)</u>	<u>363,001</u>
<u>\$ 26,973,815</u>	<u>\$ 24,489,430</u>	<u>\$ 2,446,382</u>	<u>\$ 6,540</u>	650,504
				<u>264,360</u>
				<u>\$ 914,864</u>

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES FOR COMPUTATION OF
INDIRECT COSTS FOR 2007-2008
GENERAL AND SPECIAL REVENUE FUNDS
For the year ended August 31, 2007

EXHIBIT D-2

Account Number		(1)	(2)	(3)	(4)	(5)	(6)	(7)
		701	702	703	720	750	(other)	
		Supt's Office	School Board	Tax Collection	Direct Cost	Indirect Cost	Misc.	Total
6100	Payroll Costs	\$ 365,234		\$ 60,762	\$ 58,490	\$ 723,054	\$	\$ 1,207,540
6211	Legal Services		208,632					208,632
6212	Audit Services					41,500		41,500
6213	Tax Appraisal / Collection			214,181				214,181
621X	Other Professional Services		15,833		11,600	19,178		46,611
6230	Education Service Centers							
6240	Maintenance and Repairs				3,481			3,481
6250	Utilities							
6260	Rentals	1,002		16,928		1,807		19,737
6270								
6280								
6290	Miscellaneous Contracts	1,448	2,583	41,227	857	52,364		98,479
63XX	Other Supplies	10,832	3,609	7,542	10,187	53,512		85,682
	Travel, Subsistence and							
6410	Stipends	10,643	9,152	258	3,405	14,839		38,297
6420	Insurance and Bonding	17,772		650				18,422
6430	Election Expense		16,827					16,827
6490	Miscellaneous Operating	28,259	3,038	385	13,340	19,076		64,098
6600	Capital outlay							
Total		<u>\$ 435,190</u>	<u>\$ 259,674</u>	<u>\$ 341,933</u>	<u>\$ 101,360</u>	<u>\$ 925,330</u>	<u>\$</u>	<u>\$ 2,063,487</u>

OTHER INFORMATION:

Total expenditures for General and Special Revenue Funds (Exhibit A-2) (9) \$ 39,603,795

LESS: Deductions of Unallowable Costs:

FISCAL YEAR

Total Capital Outlay (6600)	(10)	\$ 483,013
Total Debt & Lease (6500)	(11)	49,143
Plant Maintenance (Function 51, 6100-6400)	(12)	4,262,090
Food (Function 35, 6341 and 6499)	(13)	
Stipends (6413)	(14)	
Column 5 above - Total Indirect Cost		<u>925,330</u>

Subtotal 5,719,576

Net Allowable Direct Cost \$ 33,884,219

CUMULATIVE

Total Cost of Buildings before Depreciation (1520)	(15)	\$ 49,624,022
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)	4,465,818
Historical Cost of Furniture & Equipment over 16 years old	(19)	350,000
Amount of Federal Money in Furniture & Equipment (Net of #19)	(20)	

Includes \$0 of function 53 expenditures.

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
FUND BALANCE AND CASH FLOW CALCULATION SCHEDULE (UNAUDITED)
GENERAL FUND
August 31, 2007

EXHIBIT D-3

1.	Total General Fund Balance 8-31-2007 (Exhibit A-3 object 3000 for the General Fund only)	\$ 8,968,244
2.	Total Reserved Fund Balance 8-31-2007 (from Exhibit A-3 - total of object 3400s for the General Fund only)	1,228,079
3.	Total Designated Fund Balance (from Exhibit A-3 - total of object 3500s for the General Fund only)	672,240
4.	Estimated amount needed to cover fall cash flow deficits in General Fund (net of borrowed funds and funds representing deferred revenues)	3,000,000
5.	Estimate of one month average cash disbursements during the regular school session (9-1-2006 to 5-31-2007)	3,017,229
6.	Estimate of delayed payments from state sources (58xx) including August payment delays	
7.	Estimate of underpayment from state sources equal to variance between Legislative Payment Estimate (LPE) and District Planning Estimate (DPE) or District's calculated earned state aid amount	
8.	Estimate of delayed payments from federal sources (59xx)	307,667
9.	Estimate of expenditures to be reimbursed to General Fund from Capital Projects Fund (uses of General Fund cash after bond referendum and prior to issuance of bonds).	
10.	General Fund Optimum Fund Balance and Cash Flow (2+3+4+5+6+7+8+9)	<hr style="border-top: 1px solid black;"/> 8,225,215
11.	Excess or Deficit Undesignated Unreserved General Fund Fund Balance (1-10)	<hr style="border-top: 1px solid black;"/> \$ 743,029

The District's administration will continue to monitor the General Fund Fund Balance in the following budgetary cycles to maintain a fund balance level within District policy and State guidelines.

The District is entering into a major construction period. The reserves in the General Fund Fund Balance could be called on during this construction phase to cover rising material and labor costs.

The District's goal is to maintain an average of three months operating expenditures in fund balance to ensure ongoing operations.

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE
FOOD SERVICE AND DEBT SERVICE FUNDS
For the year ended August 31, 2007

Data Control Codes		Food Service			Variance Favorable (Unfavorable)
		Budget		Actual	
		Original	Final		
	REVENUES:				
5700	Local, Intermediate, and Out-of-State	\$ 1,763,871	\$ 1,837,514	\$ 1,588,199	\$ (249,315)
5800	State Program Revenues			5,674	5,674
5900	Federal Program Revenues			169,824	169,824
5030	Total Revenues	<u>1,763,871</u>	<u>1,837,514</u>	<u>1,763,697</u>	<u>(73,817)</u>
	EXPENDITURES:				
	<i>Current:</i>				
0035	Food Services	1,763,871	1,837,514	1,761,153	76,361
0036	Extracurricular activities				
0041	Administrative Support Services				
0051	Plant maintenance and operations				
	<i>Debt Service:</i>				
0071	Principal				
0072	Interest and Fiscal Agent Fees				
6030	Total Expenditures	<u>1,763,871</u>	<u>1,837,514</u>	<u>1,761,153</u>	<u>76,361</u>
1100	Excess (Deficiency) Revenues Over Expenditures			2,544	2,544
	OTHER FINANCING SOURCES (USES)				
7915	Transfers in				
8911	Transfers out				
1200	Increase (Decrease) in Fund Balance			2,544	2,544
0100	Fund Balance - September 1 (Beginning)	<u>114,197</u>	<u>114,197</u>	<u>114,197</u>	
3000	Fund Balance - August 31 (Ending)	<u>\$ 114,197</u>	<u>\$ 114,197</u>	<u>\$ 116,741</u>	<u>\$ 2,544</u>

EXHIBIT D-4

Debt Service Fund			
Budget			Variance
Original	Final	Actual	Favorable (Unfavorable)
\$ 2,402,980	\$ 2,617,683	\$ 2,654,448	\$ 36,765
428,439	498,595	461,473	(37,122)
<u>2,831,419</u>	<u>3,116,278</u>	<u>3,115,921</u>	<u>(357)</u>
1,885,847	1,885,847	1,825,000	60,847
1,284,201	1,284,201	1,284,201	
<u>3,170,048</u>	<u>3,170,048</u>	<u>3,109,201</u>	<u>60,847</u>
(338,629)	(53,770)	6,720	60,490
<u>(338,629)</u>	<u>(53,770)</u>	<u>6,720</u>	<u>60,490</u>
2,562,214	2,562,214	2,562,214	
<u>\$ 2,223,585</u>	<u>\$ 2,508,444</u>	<u>\$ 2,568,934</u>	<u>\$ 60,490</u>

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Federal Awards Section

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***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, 2007 which collectively comprise the District's basic financial statements and have issued our report thereon dated January 22, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects an entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider finding numbers 07-01, 07-02 and 07-03 to be significant deficiencies.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as finding numbers 07-04, 07-05 and 07-06. 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 response and, accordingly, we express no opinion on it.

Closing

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



Texas City, Texas
January 22, 2008

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***Independent Auditors' Report on Compliance with Requirements
Applicable to Each Major Program and on Internal Control
Over Compliance in Accordance with OMB Circular A-133***

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

Compliance

We have audited the compliance of Friendswood Independent School District (the "District") with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended August 31, 2007. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended August 31, 2007. However, the results of our auditing procedures disclosed instances 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 finding 07-04.

Internal Control Over Compliance

The 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 in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is a more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider finding number 07-04 to be a significant deficiency

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

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

Closing

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 response and, accordingly, we express no opinion on it.

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



Texas City, Texas
January 22, 2008

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended August 31, 2007

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?	Yes, #07-01, #07-02, #07-03
Noncompliance material to financial statements noted?	Yes, #07-05

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	None Noted
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?	No
Identification of major programs	
Name of Federal Program or Cluster	CFDA Numbers
US Department of Education	
Special Education Cluster:	
IDEA - Part B – Formula	84.027
IDEA – Part B – Discretionary	84.027
IDEA – B Pre School	84.173
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
For the Year Ended August 31, 2007

II. FINANCIAL STATEMENT FINDINGS

Significant Deficiencies

Finding 07-01

Condition: Accounts Payable personnel have access to the vendor master files. In addition, the accounts payable clerk has been assigned the duty to set up new vendors in the computer system.

Criteria: Segregation of duties between the accounts payable and purchasing functions are necessary to promote strong internal controls and to prevent unauthorized payments to vendors.

Cause: Limited staffing in the Business Office has led to employees performing two or more incompatible functions.

Effect: The accounts payable clerk's ability to set up vendors increases the District's susceptibility to fraud.

Recommendation: The responsibility of setting up vendors should be removed from the accounts payable staff, and their access to the vendor master files should be removed in the computer system. The staff handling the purchasing functions of the district should be assigned the task of adding new vendors and making any changes to vendor master files.

Finding 07-02

Condition: Approximately \$340,000 in cash and checks collected from students was not deposited in the bank in a timely manner. The funds were also not included in cash balances at year end as deposits in transit.

Criteria: Proper safeguarding of assets (cash) requires timely deposits.

Cause: Staff at the High School performing registration were collecting payments from students for participation fees and consumable supplies. The cash and checks were held at the campus for up to two weeks before a deposit was made in the bank. These deposits should have been included as deposits in transit on the bank reconciliation.

Effect: Although there were no instances of lost or stolen cash, not making timely bank deposits can lead to an increased risk of these instances occurring as well as inaccurate financial statements.

Recommendation: A plan should be developed to ensure that funds are deposited daily during heavy collection periods. Timely deposits will lead to accurate financial reporting of district cash balances.

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended August 31, 2007

Finding 07-03

Condition: Journal entries tested lacked indication of preparer, proper approvals, and adequate supporting documentation.

Criteria: Material misstatements of financial statements due to fraud often involve the manipulation of financial reporting by recording inappropriate or unauthorized journal entries throughout the year or at period end.

Cause: There are not effective processes in place to ensure that journal entries are properly prepared, supported and approved. Also, system controls are not in place to ensure proper segregation of duties related to the preparation and posting of journal entries.

Effect: Financial statements amounts may be misstated and/or not properly supported. Failure to implement effective processes and procedures could increase the risks of fraud and mismanagement of funds.

Recommendation: The District should develop effective policies and procedures that will strengthen controls over the journal entry review and approval process to ensure that all journal entries are complete, accurate, properly supported and approved prior to posting in the general ledger.

Compliance and Other Matters

Finding 07-04

Condition: Periodic time certifications on personnel funded under the IDEA B federal program were not prepared.

Criteria: According to OMB Circular A-87, where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages must be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications should be prepared at least semi-annually and should be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee

Cause: District personnel were unaware of this requirement and had not prepared the certifications.

Effect: Non-compliance with OMB Circular A-87.

Recommendation: Procedures should be implemented to annually determine which FISD staff salaries are paid out of federal funds and ensure that certifications are maintained on these personnel.

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended August 31, 2007

Finding 07-05

Condition: The district exceeded the budget in several functional expenditure categories.

Criteria: TEA requires that a school district amend the official budget before exceeding a functional expenditure category, i.e., instruction, administration, etc., in the total district budget. These budget changes are usually the result of unexpected levels of expenditures in certain categories and must be amended in the budget for legal compliance.

Cause: Accounting adjustments made at year end resulted in several functional expenditure categories to exceed the approved budget.

Effect: Non-compliance with TEA budgeting requirements.

Recommendation: As budgeted funds are expended, periodic monitoring of the budget should be conducted. The district should consider the effect of year end adjustments on the functional budgets and incorporate these adjustments into the adopted budget or any subsequent board approved budget amendments.

Finding 07-06

Condition: Amounts reported to the Texas Education Agency (“TEA”) using the Public Education Information Management System (“PEIMS”) did not match the Annual Financial and Compliance Report for the year ended August 31, 2006.

Criteria: The Texas Education Agency’s Financial Accountability and Resource Guide section 7.3.3.2 requires that amounts reported in the mid-year submission to the PEIMS database agree to prior year audited amounts.

Cause: Two special revenue funds were not included in the PEIMS submission to TEA.

Effect: Non-compliance with TEA PEIMS Reporting Requirements.

Recommendation: Procedures should be developed to ensure that amounts reported in the mid-year submission agree to the previous year’s Annual Financial and Compliance Report.

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended August 31, 2007

IV. FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Finding 07-04

Condition: Periodic time certifications on personnel funded under the IDEA B federal program were not prepared.

Criteria: According to OMB Circular A-87, where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages must be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications should be prepared at least semi-annually and should be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee

Cause: District personnel were unaware of this requirement and had not prepared the certifications.

Effect: Non-compliance with OMB Circular A-87.

Recommendation: Procedures should be implemented to annually determine which FISC staff salaries are paid out of federal funds and ensure that certifications are maintained on these personnel.

Questioned Costs: None.

IV. SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Finding #	Corrective Action Taken
Finding 06-01- Activity Funds	This recommendation has been implemented. The checks for the activity fund accounts are now being processed and paid through accounts payable twice a week. All transactions are being entered and maintained in the District's Pentamotion financial software program.
Finding 06-02 – Budget Compliance	See Finding #07-05

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended August 31, 2007

V. CORRECTIVE ACTION PLAN

Finding 07-01: Segregation of duties between Accounts Payable and Purchasing

Contact Person: Alison Rendon, Executive Director of Finance
Accounts payable personnel will no longer be adding and editing vendor information.

Estimated Completion Date: January 22, 2008

Finding 07-02: Timely depositing of cash

Contact Person: Alison Rendon, Executive Director of Finance
New student fee and bank systems are currently being researched.

Estimated Completion Date: March 31, 2008

Finding 07-03: Journal entry policies and procedures

Contact Person: Alison Rendon, Executive Director of Finance
Executive Director of Finance will review and sign off on all journal entries before being entered.

Estimated Completion Date: January 22, 2008

Finding 07-04: IDEA-B periodic time certifications

Contact Person: Karen Deshotel, Executive Director of Special Education

Special Services Director to complete certification at end of each semester.

Estimated Completion Date: January 22, 2008

Finding 07-05: Budget Compliance

Contact Person: Alison Rendon, Executive Director of Finance

District staff will monitor the budget and actual differences monthly and ensure that any potential functional overages are approved by the Board of Trustees prior to expenditures.

Estimated Completion Date: January 22, 2008

Finding 07-06: PEIMS reporting

Contact Person: Alison Rendon, Executive Director of Finance

Accounting staff will make necessary changes in the software to ensure that the proper accounts are reported to PEIMS.

Estimated Completion Date: January 22, 2008

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended August 31, 2007

EXHIBIT E-1

Pass Through Entity Identifying Number	Federal Grantor/ Pass-Through Grantor/ Program Title	District Fund Number	Federal CFDA Number	Federal Expenditures
U.S. Department of Education				
Direct Program:				
Q184D070026	<i>Safe and Drug Free Schools and Communities</i>	282	84.184D	\$ 2,265
	Total direct programs			<u>2,265</u>
Passed Through Texas Education Agency:				
7691001084911	<i>ESEA Title IV, Part A, Safe & Drug Free Schools</i>	204	84.186A	\$ 11,643
7610101084911	<i>ESEA Title I Part A</i>	211	84.010A	110,542
76600010849116600	<i>IDEA - Part B, Formula *</i>	224	84.027A	924,540
86600010849116600	<i>IDEA - Part B, Formula *</i>	224	84.027A	47,027
76610010849116600	<i>IDEA - Part B, Preschool *</i>	225	84.173A	11,226
86610010849116600	<i>IDEA - Part B, Preschool *</i>	225	84.173A	957
76600060849116680	<i>IDEA - Part B, High Cost Risk Pool *</i>	226	84.027A	75,064
76600020849116677	<i>IDEA - Part B, Discretionary *</i>	226	84.027A	177,070
742000608491104	<i>Career and Technology Education - Carl D. Perkins</i>	244	84.048A	31,935
7694501084911	<i>ESEA Title II, Part A, Teacher/Principal Training</i>	255	84.367A	82,330
8694501084911	<i>ESEA Title II, Part A, Teacher/Principal Training</i>	255	84.367A	57,255
7630001084911	<i>ESEA Title II, Part D - Enhancing Education</i>	262	84.318X	956
7685001084911	<i>ESEA, Title V, Part A, Innovative Program</i>	269	84.298A	13,264
8685001084911	<i>ESEA, Title V, Part A, Innovative Program</i>	269	84.298A	1,959
084-911	<i>ESEA, Title III, LEP/Immigrant</i>	350	84.365	4,515
	Total passed through Texas Education Agency			<u>1,550,283</u>
Passed through Texas Higher Ed. Coordinating Board to North Harris Montgomery Community College:				
084-911	<i>Vocational Education - Tech. Prep.</i>	243	84.243A	6,383
	Total passed through Texas Higher Ed. Coordinating Board			<u>6,383</u>
	Total Passed through Programs			<u>1,556,666</u>
	Total Department of Education			<u>1,558,931</u>
U.S. Department of Agriculture				
Passed Through State Department of Education:				
71400701	National School Lunch Program *	240	10.555	100,535
71300601	School Breakfast Program *	240	10.553	62
Direct Program:				
101916	USDA Donation Commodities *	240	10.550	69,227
	Total Department of Agriculture			<u>169,824</u>
	Total Expenditures of Federal Awards			<u>\$ 1,728,755</u>

* Clustered programs under OMB Circular A-133.

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended August 31, 2007

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

DO NOT BIND IN REPORT

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT	
<i>STATE SUMMARY OF AUDIT RESULTS</i>	
<i>SCHEDULE L-1</i>	
<i>YEAR ENDED AUGUST 31, 2007</i>	
Were there any disclosures in the Annual Financial Report and/or other sources of information concerning default on bonded indebtedness obligations?	No
Did the district receive a clean audit? – Was there an unqualified opinion in the Annual Financial Report?	Yes
Did the Annual Financial Report disclose any instances of material weaknesses in internal controls?	No
Was there any disclosure in the Annual Financial Report of material noncompliance?	No