

**FRIENDSWOOD INDEPENDENT  
SCHOOL DISTRICT**

**ANNUAL FINANCIAL AND  
COMPLIANCE REPORT**

*For The Year Ended August 31, 2006*



**Null-Lairson**

**CERTIFIED PUBLIC ACCOUNTANTS**

**PROFESSIONAL CORPORATION**

2000 Loop 197 North  
Texas City, Texas 77590  
(409)948-4406  
(888)488-4463

*(This page intentionally left blank)*

**FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT**  
**ANNUAL FINANCIAL AND COMPLIANCE REPORT**  
*Year Ended August 31, 2006*

**TABLE OF CONTENTS**

---

	<b>Page</b>	<b>Exhibit</b>
<b>CERTIFICATE OF THE BOARD</b>	1	
<b>FINANCIAL SECTION</b>		
Independent Auditors' Report	5	
Management Discussion and Analysis	7	
Basic Financial Statements:		
Government-wide Financial Statements		
Statement of Net Assets	16	A-1
Statement of Activities	17	A-2
Fund Financial Statements		
Balance Sheet - Governmental Funds	18	A-3
Reconciliation of Governmental Funds Balance Sheet to Statement of Financial Position	19	A-4
Statement of Revenues, Expenditures, and Changes In Fund Balance - Governmental Funds	20	A-5
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance for Governmental Funds to the Statement of Activities	21	A-6
Proprietary Fund Financial Statements		
Statement of Net Assets - Proprietary Funds	22	A-7
Statement of Revenues, Expenses, and Changes In Fund Net Assets - Proprietary Funds	23	A-8
Statement of Cash Flows - Proprietary Funds	24	A-9
Fiduciary Fund Financial Statements		
Statement of Fiduciary Net Assets	25	A-10
Statement of Changes In Fiduciary Net Assets	26	A-11
Notes To Financial Statements	27	A-12
Required Supplementary Information:		
Budgetary Comparison Schedule - General Fund	45	B-1
Notes to Required Supplementary Information	46	B-2
Other Supplementary Information		
Combining Fund Statements:		
Nonmajor Governmental Funds		
Combining Balance Sheet	48	C-1
Combining Statement of Revenues, Expenditures, and Changes In Fund Balance	52	C-2
Internal Service Funds		
Combining Statement of Net Assets	56	C-3
Combining Statement of Revenues, Expenses, and Changes In Fund Net Assets	57	C-4
Combining Statement of Cash Flows	58	C-5

**FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT**  
**ANNUAL FINANCIAL AND COMPLIANCE REPORT**  
*Year Ended August 31, 2006*

**TABLE OF CONTENTS**

---

	<b>Page</b>	<b>Exhibit</b>
<b>FINANCIAL SECTION (continued)</b>		
Other Supplementary Information (continued)		
Combining Fund Statements (continued):		
Fiduciary Funds		
Agency Funds		
Combining Statement of Changes in Assets and Liabilities	59	C-6
Private Purpose Trust Funds		
Combining Statement of Net Assets	60	C-7
Combining Statement of Revenues, Expenses, and Changes In Net Assets	61	C-8
Schedule of Delinquent Taxes Receivable	62	C-9
Schedule of Expenditures For Computations of Indirect Cost For 2007-2008	63	C-10
Fund Balance and Cash Flow Calculation Schedule (Unaudited)- General Fund	64	C-11
Budgetary Comparison Schedule – Food Service and Debt Service Funds	65	C-12
 <b>FEDERAL AWARDS SECTION</b>		
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed In Accordance With <i>Government Auditing Standards</i>	69	
Independent Auditor’s Report on Compliance With Requirements Applicable To Each Major Program and on Internal Control Over Compliance In Accordance With <i>OMB Circular A-133</i>	71	
Schedule of Findings and Questioned Costs	73	
Summary Schedule of Prior Audit Findings	74	
Corrective Action Plan	74	
Schedule of Expenditures of Federal Awards	75	D-1
Notes to Schedule of Expenditures of Federal Awards	76	D-2

**CERTIFICATE OF BOARD**

Friendswood Independent School District  
Name of School District

Galveston  
County

084-911  
Co.- Dist. No.

We, the undersigned, certify that the attached annual financial reports of the above named school district were reviewed and approved for the year ended August 31, 2006, at a meeting of the board of trustees of such school district on \_\_\_\_\_

\_\_\_\_\_.

\_\_\_\_\_  
President of the Board

\_\_\_\_\_  
Secretary of the Board

*(This page intentionally left blank)*

## **FINANCIAL SECTION**

*(this page intentionally left blank)*



2000 Loop 197 North  
Texas City, TX 77590  
(409)948-4406  
(409)948-0364 - Fax



11 Greenway Plaza, Suite 1515  
Houston, TX 77046  
2117 Post Office Street  
Galveston, TX 77550

**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, 2006, 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; 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, 2006, and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 09, 2006 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 should be read in conjunction with this report in considering the results of our audit.

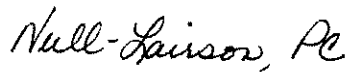
The management's discussion and analysis and budgetary comparison information as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied 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.

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

Page 2

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's 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 not a required part of the basic financial statements. In addition, the combining nonmajor fund statements and other schedules 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 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.

**NULL-LAIRSON, PC**

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

Texas City, Texas  
November 09, 2006

## 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, 2006.

### Financial Highlights - Friendswood Independent School District

The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$15,965,080 (*net assets*). Of this amount, \$8,019,298 (*unrestricted net assets*) may be used to meet the District's ongoing obligations to students and creditors.

- The District's total net assets increased by \$1,160,833.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of , an increase of \$3,283,341 in comparison with the prior year. The increase in governmental fund balances was primarily due to the increase in the capital projects fund balance of \$1,705,918 . The general fund balance increased by \$995,564 .
- At the end of the current fiscal year, unreserved, undesignated fund balance for the general fund was \$5,745,525, or 17% of total general fund expenditures.
- The District's total bonded debt increased by \$6,750,554 (32 percent) during the current fiscal year as the result of the issuance of new bonded debt during the 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, Cocurricular/Extracurricular Activities, General Administration, Plant Maintenance and Operations, Security and Monitoring Services, Data Processing Services, Community Services, Interest on Long-term Debt, Bond Issuance Costs and Fees, Facilities Acquisition and Construction, and Payments to Juvenile Justice Alternative Education Programs.

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

**Governmental funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on

*balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a District's near-term financing requirements.

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

The District maintains individual governmental funds for general, special revenue, debt service, and capital projects funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, debt service fund, and the capital projects fund, all of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these 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.

**Fiduciary fund.** The fiduciary funds are used to account for resources held for the benefit of students and employees. The fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the District's own programs. The funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operation.

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

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

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

## **Government-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a District's financial position. In the case of the District, assets exceeded liabilities by \$15,965,080 at the close of the most recent fiscal year.

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

**COMPARATIVE SCHEDULE OF NET ASSETS**

*August 31, 2006 and 2005*

*Amounts in (000's)*

	Governmental Activities		Totals		Change
	2006	2005	2006	2005	2006 - 2005
Current and other assets	\$ 18,299	\$ 13,912	\$ 18,299	\$ 13,912	\$ 4,387
Capital assets	31,701	29,235	31,701	29,235	2,466
<b>Total assets</b>	<b>50,000</b>	<b>43,147</b>	<b>50,000</b>	<b>43,147</b>	<b>6,853</b>
Other liabilities	4,457	3,000	4,457	3,000	1,457
Long-term liabilities	29,578	25,343	29,578	25,343	4,235
<b>Total liabilities</b>	<b>34,035</b>	<b>28,343</b>	<b>34,035</b>	<b>28,343</b>	<b>5,692</b>
Net assets:					
Invested in capital assets, net of related debt	2,923	4,938	2,923	4,938	(2,015)
Restricted	5,023	2,164	5,023	2,164	2,859
Unrestricted	8,019	7,704	8,019	7,704	315
<b>Total net assets</b>	<b>\$ 15,965</b>	<b>\$ 14,806</b>	<b>\$ 15,965</b>	<b>\$ 14,806</b>	<b>\$ 1,159</b>

Net assets are restricted for various purposes as follows:

	2006	2005
Federal and state programs	\$ 77,054	\$ 74,622
Food service	114,197	18,799
Debt service	2,562,214	1,849,456
Capital projects	1,705,918	-
Campus activities	563,790	220,650
Unrestricted	8,019,298	7,702,633
	<b>\$ 13,042,471</b>	<b>\$ 9,866,160</b>

The remaining balance of unrestricted net assets (\$8,019,298) 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 \$1,160,833 during the current fiscal year.

**COMPARATIVE SCHEDULE OF CHANGES IN NET ASSETS**  
*For the Years Ended August 31, 2006 and 2005*  
*Amounts in (000's)*

	Governmental		Totals		Change
	Activities				
	2006	2005	2006	2005	2006 - 2005
<b>Revenues</b>					
Program revenues:					
Charges for services	\$ 2,538	\$ 1,855	\$ 2,538	\$ 1,855	\$ 683
Operating grants and contributions	4,120	3,906	4,120	3,906	214
General revenues:					
Property taxes	27,037	25,961	27,037	25,961	1,075
State aid - formula grants	6,039	5,996	6,039	5,996	42
Investment earnings	767	362	767	362	405
Other	169	114	169	114	55
<b>Total revenues</b>	<u>40,668</u>	<u>38,194</u>	<u>40,668</u>	<u>38,194</u>	<u>2,474</u>
<b>Expenses</b>					
Instruction	22,480	21,366	22,480	21,366	1,114
Instructional resources	894	881	894	881	13
Curriculum/instructional staff development	158	229	158	229	(71)
Instructional leadership	644	590	644	590	54
School leadership	2,100	1,909	2,100	1,909	191
Guidance, counseling & evaluation services	837	797	837	797	40
Social work services	-	-	-	-	-
Health services	350	332	350	332	18
Student transportation	1,658	1,576	1,658	1,576	82
Food services	1,601	1,517	1,601	1,517	84
Cocurricular/extracurricular activities	1,101	1,002	1,101	1,002	99
General administration	1,742	1,613	1,742	1,613	129
Plant maint. & operations	3,666	3,490	3,666	3,490	176
Security & monitoring services	109	76	109	76	33
Data processing services	609	400	609	400	209
Community services	353	109	353	109	244
Debt service - interest	1,142	1,099	1,142	1,099	43
Debt service - fees & costs	6	-	6	-	6
Facilities acquisition & construction	14	113	14	113	(99)
Payments-fiscal agent/member districts of SSA	30	29	30	29	1
Payments-Juvenile Justice	13	20	13	20	(7)
Alternative Ed. Program					
<b>Total expenses</b>	<u>39,507</u>	<u>37,148</u>	<u>39,507</u>	<u>37,148</u>	<u>2,359</u>
Increase (decrease) in net assets	1,161	1,046	1,161	1,046	115
Net assets - beginning	14,806	13,760	-	-	-
<b>Net assets - ending</b>	<u>\$ 15,967</u>	<u>\$ 14,806</u>	<u>\$ 1,161</u>	<u>\$ 1,046</u>	<u>\$ 115</u>

**Governmental activities.** Governmental activities increased the District’s net assets by \$1,160,833. Revenues are generated primarily from three sources. Property taxes, state-aid formula grants, and operating grants and contributions represent 91.5% of total revenues. The remaining 8.5% is generated from charges for services, investment earnings, and miscellaneous revenues.

	<u>Total</u> <u>Revenues</u>	<u>% of</u> <u>Total</u> <u>Revenues</u>
Property taxes	\$ 27,037	66.5
State aid - formula grants	6,039	14.8
Operating grants and contributions	4,120	10.1
	<u>37,195</u>	<u>91.5</u>
Other revenues	3,473	8.5
Total revenues	<u>\$ 40,668</u>	<u>100.0</u>

The primary functional expense of the District is instruction, which represents 56.9% of total expenses. The remaining individual functional categories of expenses are each less than 10 percent of total expenses.

	<u>Total</u> <u>Expenses</u>	<u>% of</u> <u>Total</u> <u>Expenses</u>
Instruction	\$ 22,480	56.9
Other expenses	17,027	43.1
Total expenses	<u>\$ 39,507</u>	<u>100.0</u>

**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 \$11,851,075, an increase of \$3,283,341 in comparison with the prior year. Although, the general fund had an increase in fund balance, the increase in ending governmental fund balances is primarily due to an increase in the capital projects fund balance.

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 \$5,745,525, while total fund balance reached \$11,851,075. 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. Unreserved, undesignated fund balance represents 17% of total general fund expenditures, while total fund balance represents 36% of that same amount. The fund balance of the District’s general fund increased by \$995,564 during the current fiscal year.

The debt service fund has a total fund balance of \$2,562,214, 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 \$421,382 was attributable to increases in local tax revenues.

The capital projects fund has a total fund balance of \$1,538,107, all of which is reserved for authorized construction and technology projects/enhancements. The net increase in fund balance during the current year of \$1,705,918 was due to the issuance of general obligation bonds.

**General Fund Budgetary Highlights**

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

	<b>BUDGET</b>	
	<u>Original</u>	<u>Final Amended</u>
Total revenues	\$ 31,820,820	\$ 33,624,976
Total expenditures	32,526,158	33,973,624
Net change in fund balance	<u>\$ (705,338)</u>	<u>\$ (348,648)</u>

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, 2006, includes land, buildings and improvements, furniture and equipment, and construction in progress. The investment in capital assets for the current fiscal year was \$4,249,319 . The following table summarizes the investment in capital assets as of August 31, 2006 and 2005.

	<u>2006</u>	<u>2005</u>
Land	\$ 1,289,174	\$ 1,289,174
Buildings and improvements	47,337,836	45,109,933
Furniture and equipment	4,075,384	3,971,427
Assets under capital lease	110,278	-
Construction in progress	<u>1,792,296</u>	<u>-</u>
Total	54,604,968	50,370,534
Accumulated depreciation	<u>(22,904,065)</u>	<u>(21,135,769)</u>
Net capital assets	<u>\$ 31,700,903</u>	<u>\$ 29,234,765</u>

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

**Long-term liabilities.** At the end of the current fiscal year, the District had \$28,045,554 in bonded debt outstanding, an increase of \$6,750,554 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, 2006, are as follows:

<u>Outstanding</u>			<u>Outstanding</u>
<u>09/01/05</u>	<u>Issued</u>	<u>Retired</u>	<u>08/31/06</u>
<u>\$ 21,295,000</u>	<u>\$ 8,315,554</u>	<u>\$ 1,565,000</u>	<u>\$ 28,045,554</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 2006-2007 budget preparation was up \$133 million, about 8% from the previous year.
- The Tax Rate for 2006-2007 is \$1.507 (\$1.37 for M&O; \$.137 for I&S). This year the legislature set the maximum M & O tax rate at \$1.33 but gave districts the option to assess four additional cents, which FISD passed. These four additional pennies have been referred to as “super pennies”



- Operating expense per student is \$7,229 for 2006-2007 based on the total budget.
- The District's 2006-2007 refined average daily attendance is budgeted to be 5,600 an increase of 1.8% from the previous year.

These indicators were taken into account when adopting the general fund budget for 2006-2007. The total Friendswood Independent School District budget for 2006-2007 is \$41,930,698.

Expenditures are budgeted to increase about 11.6% to \$41.9 million. The majority of the increase is in the salary related area and property/casualty insurance. The legislature also passed a high school allotment based on ADA in grades 9-12 which amounted to \$483,640 of the total budgeted revenues and expenditures.

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 766 acre community, is expected to have 1500 homes at its completion. The grand opening for this community is planned for early 2007.

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

The District passed an \$8.25 million bond issue of which \$5.5 million is for capital improvements and repairs and \$2.725 million to refund the Maintenance Tax Notes issued in November 2004 for energy conservation services and capital improvements. Many bond projects have already been completed and there are a few still underway.

#### **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.

*(this page intentionally left blank.)*

## **BASIC FINANCIAL STATEMENTS**

**FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF NET ASSETS**  
*August 31, 2006*

Exhibit A-1

<b>Data Control Codes</b>		<b>Governmental Activities</b>
	<b>ASSETS</b>	
1110	Cash and cash equivalents	\$ 15,547,886
1225	Property taxes receivables, net	587,540
1240	Due from other governments	1,460,912
1267	Due from fiduciary funds	20,000
1290	Other receivables, net	83,866
1300	Inventories	215,437
1410	Deferred expenses	236,784
1420	Capital bond and other debt issuance costs	143,564
1430	Premium on debt issuance	3,394
	Capital assets not subject to depreciation	
1510	Land	1,289,174
1580	Construction in progress	1,792,296
	Capital assets, net of depreciation	
1520	Buildings and improvements, net	27,645,502
1530	Furniture and equipment, net	863,653
1550	Assets under capital lease	110,278
1000	Total Assets	50,000,286
	<b>LIABILITIES</b>	
2110	Accounts payable	1,301,875
2140	Interest payable	176,508
2150	Payroll deductions and withholdings	2,490
2160	Accrued wages payable	2,482,022
2177	Due to fiduciary funds	128,939
2180	Due to other governments	12,592
2300	Deferred revenue	352,567
2400	Payable from restricted assets	829,455
	Noncurrent Liabilities:	
2501	Due within one year	2,115,648
2502	Due in more than one year	26,633,110
2000	Total Liabilities	34,035,206
	<b>NET ASSETS</b>	
3200	Invested in capital assets, net of related debt	2,922,595
	Restricted for:	
3820	Federal and state programs	77,054
3840	Food service	114,197
3850	Debt service	2,562,214
3860	Capital projects	1,705,918
3870	Campus activity	563,790
3900	Unrestricted	8,019,312
	Total net assets	\$ 15,965,080

**FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF ACTIVITIES**  
*For the Year Ended August 31, 2006*

Exhibit A-2

Data Control Codes	Functions/Programs	Expenses	Program Revenue		Net (Expense)
			Charges for	Operating	Revenue and
			Services	Grants and Contributions	Changes in Net Assets
					Primary Government
					Governmental Activities
Governmental activities:					
11	Instruction	\$ 22,480,034	\$ 35,720	\$ 2,643,065	\$ (19,801,249)
12	Instructional resources and media services	894,059	-	22,134	(871,925)
13	Curriculum and staff development	158,194	-	118,467	(39,727)
21	Instructional leadership	643,787	-	24,111	(619,676)
23	School leadership	2,100,011	-	120,028	(1,979,983)
31	Guidance, counseling, and evaluation services	836,952	-	60,446	(776,506)
33	Health services	349,676	-	19,985	(329,691)
34	Student transportation	1,657,708	-	119,569	(1,538,139)
35	Food service	1,601,403	1,468,853	190,856	58,306
36	Extracurricular activities	1,101,053	933,109	72,797	(95,147)
41	General administration	1,742,029	58,033	57,591	(1,626,405)
51	Plant, maintenance and operations	3,666,474	41,842	101,932	(3,522,700)
52	Security and monitoring services	108,734	-	-	(108,734)
53	Data processing services	608,747	-	38,102	(570,645)
61	Community services	353,328	-	254	(353,074)
72	Interest on long-term debt	1,142,361	-	530,594	(611,767)
73	Debt issuance costs and fees	5,956	-	-	(5,956)
81	Facilities acquisition and construction	13,813	-	-	(13,813)
93	Payments related to shared services arrangements	30,046	-	-	(30,046)
95	Payments to Juvenile Justice Alternative Education Programs	13,025	-	-	(13,025)
TG	Total governmental activities	39,507,390	2,537,557	4,119,931	(32,849,902)
<b>Data</b>					
<b>Control</b>					
<b>Codes</b>					
General revenues:					
Taxes:					
MT	Property taxes, levied for general purposes				24,777,221
DT	Property taxes, levied for debt service				2,259,426
SF	State-aid formula grants				6,038,617
GC	Grants and contributions not restricted				5,069
IE	Investment earnings				766,577
MI	Miscellaneous				161,912
S1	Special item - gain on sale of asset				1,927
TR	Total general revenues, special items, and transfers				34,010,749
CN	Change in net assets				1,160,847
NB	Net assets - beginning				14,804,233
NE	Net assets - ending				\$ 15,965,080

See accompanying notes to financial statements.

**FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
*August 31, 2006*

Exhibit A-3

Data Control Codes	General Fund	Debt Service Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>					
1110 Cash and temporary investments	\$ 8,984,299	\$ 2,547,686	\$ 2,482,455	\$ 168,246	\$ 14,182,686
Receivables:					
1220 Property taxes - delinquent	553,577	51,573	-	-	605,150
1230 Allowance for uncollectible taxes (credit)	(16,109)	(1,501)	-	-	(17,610)
1240 Receivables from other governments	1,219,575	57,878	-	183,459	1,460,912
1260 Due from other funds	134,649	-	10,166	119,026	263,841
1290 Other receivables	34,552	-	-	49,314	83,866
1300 Inventories, at cost	215,437	-	-	-	215,437
1410 Prepaid expenses	236,784	-	-	-	236,784
Total Assets	<u>\$ 11,362,764</u>	<u>\$ 2,655,636</u>	<u>\$ 2,492,621</u>	<u>\$ 520,045</u>	<u>\$ 17,031,066</u>
<b>LIABILITIES AND FUND EQUITY</b>					
<b>LIABILITIES:</b>					
2110 Accounts payable	363,968	-	786,703	65,184	1,215,855
2150 Payroll deduction and withholdings payable	2,490	-	-	-	2,490
2160 Accrued wages payable	2,399,986	-	-	82,036	2,482,022
2170 Due to other funds	246,659	16,032	-	110,089	372,780
2180 Payable to other governments	-	-	-	12,592	12,592
2200 Accrued expenses	271,000	-	-	-	271,000
2300 Deferred revenues	741,255	77,390	-	4,607	823,252
2000 Total Liabilities	<u>4,025,358</u>	<u>93,422</u>	<u>786,703</u>	<u>274,508</u>	<u>5,179,991</u>
<b>FUND BALANCE</b>					
Reserved for:					
3410 Investments in inventories	215,437	-	-	-	215,437
3420 Retirement of funded indebtedness	-	2,562,214	-	-	2,562,214
3430 Prepaid items	236,784	-	-	-	236,784
3440 Encumbrances	31,371	-	167,811	20,258	219,440
3450 Food service operations	-	-	-	93,939	93,939
3490 Other purposes	538,633	-	-	-	538,633
Unreserved, Designated for:					
3590 Other purposes	569,656	-	-	-	569,656
Unreserved, Undesignated Reported in:					
3600 General fund	5,745,525	-	-	-	5,745,525
3610 Special revenue funds	-	-	-	131,340	131,340
3620 Capital projects funds	-	-	1,538,107	-	1,538,107
3000 Total fund balances	<u>7,337,406</u>	<u>2,562,214</u>	<u>1,705,918</u>	<u>245,537</u>	<u>11,851,075</u>
4000 Total Liabilities and Fund Balances	<u>\$ 11,362,764</u>	<u>\$ 2,655,636</u>	<u>\$ 2,492,621</u>	<u>\$ 520,045</u>	<u>\$ 17,031,066</u>

**FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT**  
**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO**  
**STATEMENT OF FINANCIAL POSITION**  
*August 31, 2006*

Exhibit A-4

**Total fund balances, governmental funds (from A-3)** \$ 11,851,075

Amounts reported for governmental activities in the statement of net assets are different because:

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 31,700,903

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).

470,686

Debt 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 debt.

143,564

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:

General obligation bonds	(28,045,554)
Capital leases payable	(85,676)
Premiums on issuance	3,393
Deferred amounts on refunding	194,687
Accreted interest on premium compound interest bonds	(2,582)
Accrued interest payable	(176,508)
Accrued compensated absences	(538,633)

Addition of Internal Service fund net assets

449,725

**Total net assets - governmental activities**

\$ 15,965,080

**FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCE - GOVERNMENTAL FUNDS**  
*For the Year Ended August 31, 2006*

Exhibit A-5

Data Control Codes		General Fund	Debt Service Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>						
5700	Local, intermediate, and out-of-state	26,473,713	\$ 2,396,940	\$ 109,289	\$ 1,534,794	\$ 30,514,736
5800	State program revenues	7,419,718	523,600	-	566,907	8,510,225
5900	Federal program revenues	1,319	-	-	1,597,689	1,599,008
5020	Total revenues	<u>33,894,750</u>	<u>2,920,540</u>	<u>109,289</u>	<u>3,699,390</u>	<u>40,623,969</u>
<b>EXPENDITURES</b>						
<b>Current:</b>						
0011	Instruction	19,877,723	-	-	1,679,607	21,557,330
0012	Instruction resources and media svcs.	864,804	-	-	4,504	869,308
0013	Curriculum and instructional staff	51,058	-	-	106,788	157,846
0021	Instructional leadership	635,585	-	-	5,069	640,654
0023	School leadership	1,996,238	-	-	25,676	2,021,914
0031	Guidance, counseling, evaluation svcs.	801,275	-	-	26,170	827,445
0033	Health services	335,545	-	-	3,678	339,223
0034	Student transportation	1,373,098	-	-	57,035	1,430,133
0035	Food services	-	-	-	1,580,938	1,580,938
0036	Extracurricular activities	975,325	-	-	35,647	1,010,972
0041	General administration	1,694,843	-	-	6,973	1,701,816
0051	Plant maintenance and operations	3,153,823	-	-	28,219	3,182,042
0052	Security and monitoring services	101,389	-	-	-	101,389
0053	Data processing services	552,818	-	-	26,828	579,646
0061	Community services	353,074	-	-	254	353,328
<b>Debt service:</b>						
0071	Principal on long-term debt	60,589	1,565,000	-	-	1,625,589
0072	Interest on long-term debt	-	928,292	-	-	928,292
<b>Capital outlay:</b>						
0081	Capital outlay	92,660	-	3,913,537	-	4,006,197
<b>Intergovernmental:</b>						
0093	Payments - shared services arr.	30,046	-	-	-	30,046
0095	Payments to JJAEP	13,025	-	-	-	13,025
6030	Total Expenditures	<u>32,962,918</u>	<u>2,493,292</u>	<u>3,913,537</u>	<u>3,587,386</u>	<u>42,957,133</u>
1100	Excess (deficiency) of revenues over expenditures	<u>931,832</u>	<u>427,248</u>	<u>(3,804,248)</u>	<u>112,004</u>	<u>(2,333,164)</u>
<b>OTHER FINANCING SOURCES (USES)</b>						
7911	Capital-related debt issued (regular bonds)	-	2,725,000	5,510,166	-	8,235,166
7912	Sale of real or personal property	1,927	-	-	-	1,927
7913	Proceeds from capital lease	110,278	-	-	-	110,278
7915	Transfers in	-	-	-	48,473	48,473
8911	Transfers out	(48,473)	-	-	-	(48,473)
8949	Payment to Refunding Escrow Agent	-	(2,730,866)	-	-	(2,730,866)
7080	Total other financing sources and uses	<u>63,732</u>	<u>(5,866)</u>	<u>5,510,166</u>	<u>48,473</u>	<u>5,616,505</u>
1200	Net change in fund balances	995,564	421,382	1,705,918	160,477	3,283,341
0100	Fund Balance - September 1 (Beginning)	6,341,842	2,140,832	-	85,060	8,567,734
3000	Fund Balance - August 31 (Ending)	<u>\$ 7,337,406</u>	<u>\$ 2,562,214</u>	<u>\$ 1,705,918</u>	<u>\$ 245,537</u>	<u>\$ 11,851,075</u>

See accompanying notes to financial statements.



**FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND**  
**BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

Exhibit A-6

*For the Year Ended August 31, 2006*

**Net change in fund balances - total governmental funds (from A-5)** **\$ 3,283,341**

Amounts reported for governmental activities in the statement of activities (A-2) are different because:

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.

Capital outlay	4,249,319
Depreciation expense	(1,783,181)

Property tax revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	42,341
---	--------

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	1,589,602
--	-----------

Proceeds from issuance of long-term debt is reported as an other financing source in the governmental funds. In the government-wide financial statements, proceeds are treated as an increase in long-term liabilities.	(5,614,848)
---	-------------

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:

Decrease in interest payable not recognized in fund statements	(130,590)
Increase in long-term portion of accrued compensated absences	(1,530)
Amortization of debt issuance costs	(16,953)
Amortization of deferred loss on debt issuance	(33,026)
Accretion of discount on debt issuance	(617)
Accretion of interest on capital appreciation bonds	(2,582)

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.	(420,429)
--	-----------

**Change in net assets of governmental activities** **\$ 1,160,847**

**FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUND TYPES**  
*For the Year Ended August 31, 2006*

Exhibit A-7

<u>Data Control Codes</u>		<u>Governmental Activities -</u>
		<u>Total Internal Service Funds</u>
	<b>ASSETS</b>	
	Current assets:	
1110	Cash and cash equivalents	\$ 1,365,200
	Total Current Assets	<u>1,365,200</u>
1000	Total Assets	<u>\$ 1,365,200</u>
	<b>LIABILITIES:</b>	
	Current Liabilities:	
2110	Accounts payable	\$ 86,020
	Total current liabilities	<u>86,020</u>
	Non-current liabilities:	
2590	Claims and judgments	<u>829,455</u>
	Total non-current liabilities	<u>829,455</u>
2000	Total Liabilities	<u>915,475</u>
	<b>NET ASSETS:</b>	
3300	Unrestricted net assets	<u>449,725</u>
3000	Total Net Assets	<u>449,725</u>
4000	Total Liabilities and Net Assets	<u>\$ 1,365,200</u>

**FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS**  
**PROPRIETARY FUND TYPES**  
*For the Year Ended August 31, 2006*

Exhibit A-8

<u>Data Control Codes</u>	<u>Governmental Activities -  Total Internal Service Funds</u>
<b>OPERATING REVENUES</b>	
5749 Miscellaneous revenue from local sources	\$ 989,423
5754 Quasi-external interfund transactions	<u>1,145,097</u>
5020 Total operating revenues	<u>2,134,520</u>
<b>OPERATING EXPENSES</b>	
6400 Claims expense and other operating expenses	<u>2,617,208</u>
6030 Total Operating Expenses	<u>2,617,208</u>
1200 <b>Operating Income (Loss)</b>	<u>(482,688)</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>	
7955 Earnings - temporary deposits and investments	<u>62,259</u>
Total Nonoperating Revenues	<u>62,259</u>
1200 <b>Change in Net Assets</b>	(420,429)
0100 Net Assets - September 1 (Beginning)	<u>870,154</u>
3300 <b>Net Assets - August 31 (Ending)</b>	<u>\$ 449,725</u>

**FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUND TYPES**  
**Year Ended August 31, 2006**

Exhibit A-9

	<u>Governmental Activities - Total Internal Service Funds</u>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	
<b>Cash Flows from Operating Activities:</b>	
Cash received from customers	\$ 989,423
Cash receipts from quasi-external operating activities with other funds	1,145,097
Cash payments to suppliers for goods and services	<u>(2,533,751)</u>
<b>Net Cash Provided by (Used for) Operating Activities</b>	<u>(399,231)</u>
 <b>Cash Flows from Investing Activities:</b>	
Interest on investments	<u>62,259</u>
<b>Net Cash Provided by (Used for) Investing Activities</b>	<u>62,259</u>
Net Increase in Cash and Cash Equivalents	(336,972)
Cash and Cash Equivalents at Beginning of Year	<u>1,702,172</u>
<b>Cash and Cash Equivalents at End of Year</b>	<u>\$ 1,365,200</u>
 <b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>	
Operating Income (Loss)	\$ (482,688)
 Change in Assets and Liabilities:	
Increase (decrease) in Accounts Payable	(27,616)
Increase (decrease) in Claims Payable	<u>111,073</u>
<b>Net Cash Provided by (Used for) Operating Activities</b>	<u>\$ (399,231)</u>

**FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF FIDUCIARY NET ASSETS**  
*August 31, 2006*

Exhibit A-10

<u>Data</u> <u>Control</u> <u>Codes</u>		<b>Private Purpose</b>	
		<b>Trust Funds</b>	<b>Agency Funds</b>
	<b>ASSETS</b>		
1110	Cash and cash equivalents	\$ 14,528	\$ 601,597
	Receivables:		
1260	Due from other funds	-	128,939
1290	Other receivables	-	20,000
	Total Assets	14,528	750,536
	<b>LIABILITIES</b>		
2150	Payroll deduction and withholdings payable	-	11,537
2170	Due to other funds	-	20,000
2190	Due to others	-	718,999
2000	Total Liabilities	-	\$ 750,536
	<b>NET ASSETS:</b>		
3590	Reserved - other	\$ 14,528	

**FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**  
*For the Year Ended August 31, 2006*

Exhibit A-11

	<u>Private Purpose Trust Funds</u>
Change in net assets	\$ -
Net assets beginning of year	<u>14,528</u>
<b>Net assets end of year</b>	<b><u>\$ 14,528</u></b>

**NOTE 1 - Summary of Significant Accounting Policies**

***A. 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.

***B. 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 nonfiduciary 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 segment 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.

***C. 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.

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 *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's 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 nonoperating 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.

#### ***D. 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, 2006. 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.



***E. 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 10 percent of outstanding property taxes and related penalties and interest at August 31, 2006. 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.

***F. 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.

***G. 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>Years</u>
Buildings and Improvements	12-30
Furniture and Equipment	5-25

***H. Compensated Absences***

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

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

***I. 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.

***J. 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.

***K. 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.

***L. 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 2006, 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. 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:

	<u>Fair Market value</u>	<u>Weighted Average Maturity (Days)</u>
Cash and deposits	\$ 683,234	N/A
<b>Investments</b>		
Local Government Investment Pools		
Lone Star Investment Pool	2,434,342	34
MBIA	4,681,950	31
Texpool	667,826	47
TexStar	6,722,701	16
Investment Securities		
ICT Money Market Mutual Fund	957,810	1
Total Investments	<u>15,464,629</u>	24
<b>Total Cash and Investments</b>	<u>\$ 16,147,863</u>	

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

*Credit Risk:* State law and the District's investment policy limits investments in all categories to top ratings issued by nationally recognized statistical rating organizations. As of August 31, 2006, 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 AAAf/S1+ 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/V1+ 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. The District's investment of \$6,722,701 in TexStar Investment Pool represents 43 percent of the District's total investments.

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, 2006, is included in investment earnings as follows:

Investment earnings	\$ 766,577
Net increase (decrease) in investment values	<u>-</u>
<b>Total Investment earnings</b>	<u><u>\$ 766,577</u></u>

**NOTE 3 – Receivables**

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

	<b>General Fund</b>	<b>Debt Service Fund</b>	<b>Capital Projects Fund</b>	<b>Other Nonmajor Funds</b>	<b>Total</b>
Property Taxes	\$ 553,577	\$ 51,573	\$ -	\$ -	\$ 605,150
Due from other governments	1,219,575	57,878	-	183,459	1,460,912
Other	<u>34,552</u>	<u>-</u>	<u>-</u>	<u>49,314</u>	<u>83,866</u>
Gross Receivables	1,807,704	109,451	-	232,773	2,149,928
Less allowance for doubtful accounts	<u>(16,109)</u>	<u>(1,501)</u>	<u>-</u>	<u>-</u>	<u>(17,610)</u>
<b>Net Total Receivables</b>	<u><u>\$ 1,791,595</u></u>	<u><u>\$ 107,950</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 232,773</u></u>	<u><u>\$ 2,132,318</u></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>
Delinquent property taxes receivable (General Fund)	\$ 430,393	\$ -
Delinquent property taxes receivable (Debt Service Fund)	40,293	
Grant funds received prior to meeting all eligibility requirements	-	352,567
	<u>\$ 470,686</u>	<u>\$ 352,567</u>

**NOTE 4 - Capital Assets**

Capital asset activity for the year ended August 31, 2006, was as follows:

	<u>Balance</u> <u>August 31, 2005</u>	<u>Additions</u>	<u>(Retirements)</u> <u>and Transfers</u>	<u>Balance</u> <u>August 31, 2006</u>
Capital assets, not being depreciated				
Land	\$ 1,289,174	\$ -	\$ -	\$ 1,289,174
Construction in progress	-	3,905,312	(2,113,016)	1,792,296
Total Capital assets, not depreciated	<u>1,289,174</u>	<u>3,905,312</u>	<u>(2,113,016)</u>	<u>3,081,470</u>
Capital assets, being depreciated			-	
Buildings and improvements	45,109,933	114,887	2,113,016	47,337,836
Furniture and equipment	3,971,427	229,120	(148,485)	4,052,062
Total Capital assets, being depreciated	<u>49,081,360</u>	<u>344,007</u>	<u>1,964,531</u>	<u>51,389,898</u>
Less accumulated depreciation for:				
Buildings and improvements	(18,416,707)	(1,275,627)	-	(19,692,334)
Furniture and Equipment	(2,719,062)	(507,554)	148,485	(3,078,131)
Total Accumulated depreciation	<u>(21,135,769)</u>	<u>(1,783,181)</u>	<u>148,485</u>	<u>(22,770,465)</u>
Governmental Capital Assets	<u>\$ 29,234,765</u>	<u>\$ 2,466,138</u>	<u>\$ -</u>	<u>\$ 31,700,903</u>

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

<u>Function</u>	<u>Depreciation</u> <u>Expense</u>
11 Instruction	\$ 762,374
12 Instructional resources and media services	14,971
23 School leadership	45,499
33 Health services	4,176
34 Student transportation	196,064
35 Food Services	20,126
36 Extracurricular activities	130,331
41 General administration	23,840
51 Plant maintenance and operations	555,151
52 Security and monitoring services	7,345
53 Data processing services	23,304
	<u>\$ 1,783,181</u>

**Construction Commitments**

<u>Project</u>	<b>Approved</b>	
	<b>Construction Budget</b>	<b>Construction in Progress</b>
Roof replacement	\$ 540,000	\$ 529,900
Track	1,030,871	848,485
Food service equipment	208,826	206,456
District wide site work, sidewalks, parking, and drainage	150,000	111,552
Portables	102,177	95,903
	<u>\$ 2,031,874</u>	<u>\$ 1,792,296</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 nonmajor governmental funds.

The composition of interfund balances as of August 31, 2006, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Special Revenue	\$ 110,089
General	Debt Service	5,866
Special Revenue	General	117,720
Capital Projects	Debt Service	10,166
Fiduciary Funds:		
General	Trust & Agency	18,694
Special Revenue	Trust & Agency	1,306
Trust & Agency	General	128,939

Interfund transfers are defined as “flows of assets without equivalent flow of assets in return and without a requirement for repayment.” Interfund transfers made during the year ended August 31, 2006 were as follows:

<u>Transfer Out</u>	<u>Transfer In</u>	<u>Amount</u>
General	Special Revenue	\$ 48,473

**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, 2005	\$ 808,103
Additions: new entrants and salary increments	292,632
Deductions: payments to participants	<u>(291,102)</u>
Balance, August 31, 2006	<u>\$ 809,633</u>
 Limitation based on 1.0 percent and carryover	 <u>\$ 271,000</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, 2006, the legal debt margin was \$167,045,947.

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, 2006.

**A. 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.

The following is a summary of changes in bonds payable for the year ended August 31, 2006:

<u>Description</u>	<u>Interest Rate Payable</u>	<u>Original Issue</u>	<u>Interest Current Year</u>	<u>Outstanding 09/01/05</u>	<u>Issued</u>	<u>Retired</u>	<u>Outstanding 08/31/06</u>	<u>Final Maturity Date</u>
Unlimited Tax Schoolhouse Bonds	4.25% to 6.25%	\$ 17,800,000	\$ 620,375	\$ 14,125,000	\$ -	\$ 700,000	\$ 13,425,000	2/15/18
Unlimited Tax Refunding Bond	4.00% to 4.40%	9,285,000	304,155	7,170,000	-	865,000	6,305,000	2/15/12
Unlimited Tax Schoolhouse Bonds	3.78%	5,590,554	-	-	5,590,554	-	5,590,554	2/15/17
Unlimited Tax Refunding Bonds	3.60%	2,725,000	-	-	2,725,000	-	2,725,000	2/15/13
<b>TOTAL</b>			<u>\$ 924,530</u>	<u>\$ 21,295,000</u>	<u>\$ 8,315,554</u>	<u>\$ 1,565,000</u>	<u>\$ 28,045,554</u>	

Debt service requirements to maturity are as follows:

Year Ended August 31,	General Obligations			Total Requirements
	Principal	Interest	Interest-Capital App. Bonds	
2007	\$ 1,825,000	\$ 2,465,241	\$ -	\$ 4,290,241
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 - 2016	12,805,554	2,315,999	49,446	15,170,999
2017 - 2018	4,350,000	166,769	-	4,516,769
Total	<u>\$ 28,045,554</u>	<u>\$ 8,699,078</u>	<u>\$ 49,446</u>	<u>\$ 36,794,078</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:

	Maturity Value of Bonds	Original Bond Principal Amount	Accreted Interest on Bonds	Accreted Value of Bond at Year-End
Unlimited Tax Refunding Bonds, Series 2006	<u>\$ 200,000</u>	<u>\$ 59,978</u>	<u>\$ 2,582</u>	<u>\$ 62,560</u>

**Current Year Issuance of General Obligation Bondst**

On March 16, 2006, the District issued Unlimited Tax Schoolhouse and Refunding Bonds with interest rates of 3.68% to 3.78%. The bonds were issued to advance refund outstanding Maintenance Tax Notes, Series 2004; to provide funding for the purchase of land; to construct and equip school buildings within the District; and to purchase school buses.

The official statements for the 2006 issues reflect amounts outstanding of \$8,224,978. This amount differs from the actual amounts outstanding as reported in the financial statements of \$8,315,554 by \$90,576. This amount is the premium on the capital appreciation bonds that mature in 2013.

The net proceeds of the bonds were \$8,319,854 and the bond issue costs were \$80,388. \$2,730,866 of the net proceeds from the issuance was placed in an irrevocable trust to provide for all future debt service requirements on the refunded bonds.

**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, 2006, \$9,005,000 of previously refunded debt outstanding was considered defeased.



***Current Year Refunding of Long-Term Debt***

During the year, the District issued Unlimited Tax Schoolhouse and Refunding Bonds, Series 2006 to advance refund outstanding Maintenance Tax Notes, Series 2004. The refunded portion of the notes matures in 2013. This advance refunding met the requirements of an in-substance defeasance. Accordingly, the liability for the refunded notes was removed from the District's financial statements.

These refunding transactions resulted in an increase in future debt service requirements of \$112,211, and an economic gain (the difference between the present value of the old and new debt service schedules) of \$55,401.

**B. Notes Payable**

The following is a summary of changes in notes payable for the year ended August 31, 2006:

<u>Description</u>	<u>Interest Rate Payable</u>	<u>Original Issue</u>	<u>Interest Current Year</u>	<u>Outstanding 09/01/05</u>	<u>Issued</u>	<u>Retired</u>	<u>Outstanding 08/31/06</u>	<u>Final Maturity Date</u>
Maintenance Tax Notes Series 2004	2.5% to 4.00%	\$ 2,725,000	\$ 34,063	\$ 2,725,000	\$ -	\$ 2,725,000	\$ -	2/15/13
<b>TOTAL</b>			<b>\$ 34,063</b>	<b>\$ 2,725,000</b>	<b>\$ -</b>	<b>\$ 2,725,000</b>	<b>\$ -</b>	

On March 16, 2006, the District issued Unlimited Tax Refunding Bonds, Series 2006 to defease the outstanding balance of this note.

**C. 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%. 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:

<u>Fiscal Year August 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2007	\$ 19,648	\$ 4,954	\$ 24,602
2008	20,784	3,818	24,602
2009	21,986	2,616	24,602
2010	23,258	1,345	24,603
<b>Total</b>	<b>\$ 85,676</b>	<b>\$ 12,733</b>	<b>\$ 98,409</b>

**D. 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, 2006:

	<u>Balance</u> <u>09/01/05</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>08/31/06</u>	<u>Amounts Due</u> <u>Within One</u> <u>Year</u>
Bonds payable:					
General obligation bonds	\$ 21,295,000	\$ 8,315,554	\$ (1,565,000)	\$ 28,045,554	\$ 1,825,000
Less deferred amounts on refundings	(203,377)	(24,336)	33,026	(194,687)	-
Accretion - interest on capital appreciation bonds	-	2,582	-	2,582	-
Total bonds payable	<u>21,091,623</u>	<u>8,293,800</u>	<u>(1,531,974)</u>	<u>27,853,449</u>	<u>1,825,000</u>
Obligations under capital leases	-	110,278	(24,602)	85,676	19,648
Notes payable	2,725,000	-	(2,725,000)	-	-
Compensated absences	808,103	292,632	(291,102)	809,633	271,000
	<u>\$ 24,624,726</u>	<u>\$ 8,696,710</u>	<u>\$ (4,572,678)</u>	<u>\$ 28,748,758</u>	<u>\$ 2,115,648</u>

**NOTE 8 - Fund Balance**

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

Retirement/Sick Leave Benefits	\$ 538,633
--------------------------------	------------

Other designated fund balance includes the following designations of funds:

Campus Activities	\$ 569,656
-------------------	------------

**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:

	<u>General Fund</u>	<u>Debt Service</u> <u>Fund</u>	<u>Capital</u> <u>Projects Fund</u>	<u>Other</u> <u>Governmental</u> <u>Funds</u>	<u>Totals</u>
Property Taxes	\$ 24,736,977	\$ 2,257,329	\$ -	\$ -	\$ 26,994,306
Investment Income	517,677	139,611	109,289	-	766,577
Co-curricular student activities	845,120	-	-	-	845,120
Food Sales	-	-	-	1,468,962	1,468,962
Other	373,939	-	-	65,832	439,771
	<u>\$ 26,473,713</u>	<u>\$ 2,396,940</u>	<u>\$ 109,289</u>	<u>\$ 1,534,794</u>	<u>\$ 30,514,736</u>

**NOTE 10 – General Fund Federal Source Revenues**

Medicaid Administrative Claiming	<u>\$ 1,320</u>
----------------------------------	-----------------

**NOTE 11 - 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, 2006. The imputed interest on the leases is not readily determinable.

Rental expenditures in fiscal year 2006	<u>\$ 291,628</u>
---	-------------------

**NOTE 12 – 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](http://www.trs.state.tx.us), under the TRS Publications heading.

*Funding Policy.* State law provides for fiscal years 2006, 2005, and 2004, a state contribution rate of 6.0% and a member contribution rate of 6.4%. In certain instances, the reporting district is required to make all or a portion of the state's 6.0% contribution. Contribution requirements are not actuarially determined but are legally established each biennium pursuant to the following state funding policy: (1) The state constitution requires the legislature to establish a member contribution rate of not less than 6.0% of the member's annual compensation and a state contribution rate of not less than 6.0% and not more than 10.0% of the aggregate annual compensation of all members of the system during that fiscal year; (2) A state statute prohibits benefit improvements or contribution reductions if, as a result of 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, 2006, 2005 and 2004 were \$1,169,517, \$1,123,118, and \$1,158,667, respectively. The District paid additional state contributions for the years ended August 31, 2006, 2005 and 2004 in the amounts of \$194,572, \$197,318, and \$184,729, 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 13 – 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, 2006 was \$

Contributions to pension plan	\$ 1,169,518
Insurance contributions (TRS Care)	<u>234,074</u>
	<u>\$ 1,403,592</u>

**NOTE 14 - 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 coverages 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>
2005	\$ 46,426	\$ 8,209,105	\$ 8,174,642	\$ 80,889
2006	80,889	11,291,894	11,326,946	45,837

*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 coverages 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>
2005	\$ 46,426	\$ 8,209,105	\$ 8,174,642	\$ 80,889
2006	80,889	11,291,894	11,326,946	45,837

**NOTE 15 – 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 5.8% 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.

Local revenues	5700	\$ 13,025
Payroll costs	6100	11,912
Contract services	6200	242
Supplies & materials	6300	850
Other operating costs	6400	21

The District participates in a shared services arrangement that provides a system of direct and support services to eligible hearing impaired students of member districts. Although 2.8% 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. 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.

Local revenues	5700	\$ 30,046
Payroll costs	6100	30,046

**NOTE 16 - 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.

The District is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of management and the District's counsel, the resolution of these matters will not have a material adverse effect on the financial condition of the District.

**NOTE 17 – 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, 2006.

**NOTE 18 – Deficit Equity Positions**

The District's Employee Health Insurance Fund (an Internal Service Fund) experienced a net loss during the year ended August 31, 2006, which increased the fund's deficit net assets from \$(2,563) to \$(356,835). In order to eliminate the deficit, management is considering plan design changes; increased premium contributions; contributions from the general fund; a reduced cost clinic; and network changes.

**NOTE 19 – Other Postemployment Benefits**

The District does not provide postemployment 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.

**REQUIRED SUPPLEMENTARY INFORMATION**

*(this page intentionally left blank)*



**FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT**  
**BUDGETARY COMPARISON SCHEDULE**  
**GENERAL FUND**  
*For the year ended August 31, 2006*

Exhibit B-1

	<u>Budgeted Amounts</u>		<u>Actual Amounts, Budgetary Basis</u>	<u>Variance with Final Budget - Positive (Negative)</u>	
	<u>Original</u>	<u>Final</u>			
<b>REVENUES</b>					
5700	Local revenues	\$ 25,152,209	\$ 26,965,046	\$ 26,473,713	\$ (491,333)
5800	State program revenues	6,658,611	6,658,611	7,419,718	761,107
5900	Federal program revenues	10,000	1,319	1,319	-
	Total revenues	<u>31,820,820</u>	<u>33,624,976</u>	<u>33,894,750</u>	<u>269,774</u>
<b>EXPENDITURES</b>					
Current:					
0011	Instruction	20,116,607	20,157,126	19,877,723	279,403
0012	Instruction resources and media services	878,183	891,000	864,804	26,196
0013	Curriculum and instructional staff	81,862	86,148	51,058	35,090
0021	Instructional leadership	554,859	670,000	635,585	34,415
0023	School leadership	1,860,528	2,100,001	1,996,238	103,763
	Guidance, counseling and evaluation services	784,047	830,000	801,275	28,725
0033	Health services	328,370	350,000	335,545	14,455
0034	Student transportation	1,224,588	1,440,000	1,373,098	66,902
0036	Extracurricular activities	800,338	998,000	975,325	22,675
0041	General administration	1,615,734	1,725,000	1,694,843	30,157
0051	Plant maintenance and operations	3,521,424	3,521,424	3,153,823	367,601
0052	Security and monitoring services	64,000	75,000	101,389	(26,389)
0053	Data processing services	383,987	510,000	552,818	(42,818)
0061	Community services	201,706	375,000	353,074	21,926
Debt Service					
0071	Principal on long-term debt	68,125	68,125	60,589	7,536
0081	Capital outlay	-	100,000	92,660	7,340
Payments related to shared services					
0093	arrangements	-	35,000	30,046	4,954
0095	Payments to JJAEP	41,800	41,800	13,025	28,775
	Total Expenditures	<u>32,526,158</u>	<u>33,973,624</u>	<u>32,962,918</u>	<u>1,010,706</u>
1100	Excess (deficiency) of revenues over expenditures	<u>(705,338)</u>	<u>(348,648)</u>	<u>931,832</u>	<u>1,280,480</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
7911	Capital-related Debt Issued (Regular Bonds)	-	-	-	-
7912	Sale of real or personal property	-	-	1,927	(1,927)
7913	Proceeds from capital lease	-	-	110,278	(110,278)
8911	Transfers out	-	-	(48,473)	48,473
	Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>63,732</u>	<u>(1,927)</u>
	Net change in fund balances	(705,338)	(348,648)	995,564	(1,344,212)
	Fund Balance - September 1 (Beginning)	6,341,842	6,341,842	6,341,842	-
	<b>Fund Balance - August 31 (Ending)</b>	<u>\$ 5,636,504</u>	<u>\$ 5,993,194</u>	<u>\$ 7,337,406</u>	<u>\$ (1,344,212)</u>

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, 2006.

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, 2005. 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.

***OTHER SUPPLEMENTARY INFORMATION***

**FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT  
COMBINING BALANCE SHEET  
ALL NONMAJOR GOVERNMENTAL FUNDS  
August 31, 2006**

<u>Data Control Codes</u>	<u>204 Title IV, Safe &amp; Drug Free</u>	<u>211 ESEA Title I, Part A</u>	<u>224 IDEA-B Formula</u>	<u>225 IDEA-B Preschool Grant</u>	
<b>ASSETS</b>					
1110	Cash and temporary investments	\$ -	\$ -	\$ -	\$ 991
	Receivables:				
1240	Receivables from other governments	-	-	70,447	1,679
1260	Due from other funds	-	-	-	-
1290	Other receivables	-	-	-	-
1000	<b>Total Assets</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 70,447</u>	<u>\$ 2,670</u>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities:</b>					
Current Liabilities:					
2110	Accounts payable	-	-	-	-
2160	Accrued wages payable	-	-	38,243	1,679
2170	Due to other funds	-	-	20,603	-
2180	Due to other governments	-	-	11,601	991
2300	Deferred revenues	-	-	-	-
2000	<b>Total Liabilities</b>	<u>-</u>	<u>-</u>	<u>70,447</u>	<u>2,670</u>
<b>Fund Balance:</b>					
Reserved for:					
3440	Encumbrances	-	-	-	-
3450	Food service operations	-	-	-	-
Unreserved, Undesignated					
Reported in:					
3610	Special revenue funds	-	-	-	-
3000	<b>Total Fund Balances</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
4000	<b>Total Liabilities and Fund Balance</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 70,447</u>	<u>\$ 2,670</u>

226	240	243	244	255	262	269
IDEA-B	Child	Vocational	Vocational	Title II, Part	Enhancing	Title V, Part
Discretionary	Nutrition	Ed - Tech	Ed -Basic	A	Ed Through	A
		Prep			Tech	
\$ -	\$ 93,532	\$ -	\$ -	\$ -	\$ -	\$ -
35,733	8,077	264	-	3,120	-	-
-	119,026	-	-	-	-	-
-	-	-	-	-	-	-
<u>\$ 35,733</u>	<u>\$ 220,635</u>	<u>\$ 264</u>	<u>\$ -</u>	<u>\$ 3,120</u>	<u>\$ -</u>	<u>\$ -</u>
-	64,324	-	-	-	-	-
-	42,114	-	-	-	-	-
35,733	-	264	-	3,120	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>35,733</u>	<u>106,438</u>	<u>264</u>	<u>-</u>	<u>3,120</u>	<u>-</u>	<u>-</u>
-	20,258	-	-	-	-	-
-	93,939	-	-	-	-	-
-	-	-	-	-	-	-
-	114,197	-	-	-	-	-
<u>\$ 35,733</u>	<u>\$ 220,635</u>	<u>\$ 264</u>	<u>\$ -</u>	<u>\$ 3,120</u>	<u>\$ -</u>	<u>\$ -</u>

**FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT  
COMBINING BALANCE SHEET  
ALL NONMAJOR GOVERNMENTAL FUNDS  
August 31, 2006**

<u>Data Control Codes</u>	289	350	393	397	
	Emergency Impact Aid	SSA-Title III, Part A, ELA	Texas Successful Schools	Advanced Placement Incentive	
<b>ASSETS</b>					
1110	Cash and temporary investments	\$ -	\$ -	\$ 2,067	\$ 41,419
	Receivables:				
1240	Receivables from other governments	-	-	-	-
1260	Due from other funds	-	-	-	-
1290	Other receivables	-	-	-	-
1000	<b>Total Assets</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,067</u>	<u>\$ 41,419</u>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities:</b>					
Current Liabilities:					
2110	Accounts payable	-	-	-	-
2160	Accrued wages payable	-	-	-	-
2170	Due to other funds	-	-	-	-
2180	Due to other governments	-	-	-	-
2300	Deferred revenues	-	-	-	-
2000	<b>Total Liabilities</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Fund Balance:</b>					
Reserved for:					
3440	Encumbrances	-	-	-	-
3450	Food service operations	-	-	-	-
Unreserved, Undesignated					
Reported in:					
3610	Special revenue funds	-	-	2,067	41,419
3000	<b>Total Fund Balances</b>	<u>-</u>	<u>-</u>	<u>2,067</u>	<u>41,419</u>
4000	<b>Total Liabilities and Fund Balance</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,067</u>	<u>\$ 41,419</u>

<u>404</u>	<u>411</u>	<u>418</u>	<u>807</u>	<u>808</u>	
<u>Student Succ.</u>	<u>Technology</u>	<u>Active</u>	<u>Batting Cage</u>	<u>Education</u>	<u>Total Nonmajor</u>
<u>Init-Acc REA</u>	<u>Allotment</u>	<u>Employee</u>	<u>Fund</u>	<u>Foundation</u>	<u>Governmental Funds</u>
		<u>Health Ins</u>		<u>Grants</u>	
\$ -	\$ 23,297	\$ 1,968	\$ -	\$ 4,972	\$ 168,246
50,369	13,770	-	-	-	183,459
-	-	-	-	-	119,026
-	-	-	-	49,314	49,314
<u>\$ 50,369</u>	<u>\$ 37,067</u>	<u>\$ 1,968</u>	<u>\$ -</u>	<u>\$ 54,286</u>	<u>\$ 520,045</u>
-	860	-	-	-	65,184
-	-	-	-	-	82,036
50,369	-	-	-	-	110,089
-	-	-	-	-	12,592
-	2,639	1,968	-	-	4,607
<u>50,369</u>	<u>3,499</u>	<u>1,968</u>	<u>-</u>	<u>-</u>	<u>274,508</u>
-	-	-	-	-	20,258
-	-	-	-	-	93,939
-	33,568	-	-	54,286	131,340
-	33,568	-	-	54,286	245,537
<u>\$ 50,369</u>	<u>\$ 37,067</u>	<u>\$ 1,968</u>	<u>\$ -</u>	<u>\$ 54,286</u>	<u>\$ 520,045</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, 2006*

<b>Data</b>	<b>204</b>	<b>211</b>	<b>224</b>	<b>225</b>	
<b>Control</b>	<b>Title IV, Safe</b>	<b>ESEA Title I,</b>	<b>IDEA-B</b>	<b>IDEA-B</b>	
<b>Codes</b>	<b>&amp; Drug Free</b>	<b>Part A</b>	<b>Formula</b>	<b>Preschool</b>	
<b>Codes</b>	<b>&amp; Drug Free</b>	<b>Part A</b>	<b>Formula</b>	<b>Grant</b>	
<b>REVENUES</b>					
5700	Local, intermediate, and out-of-state	\$ -	\$ -	\$ -	\$ -
5800	State program revenues	-	-	-	-
5900	Federal program revenues	12,716	107,867	887,337	20,496
5020	Total revenues	<u>12,716</u>	<u>107,867</u>	<u>887,337</u>	<u>20,496</u>
<b>EXPENDITURES</b>					
<b>Current:</b>					
0011	Instruction	-	107,867	845,819	20,496
	Instruction resources and media				
0012	services	-	-	-	-
	Curriculum and instructional staff				
0013	development	-	-	4,171	-
0021	Instructional leadership	-	-	1,583	-
0023	School leadership	-	-	-	-
	Guidance, counseling and evaluation				
0031	services	12,716	-	-	-
0033	Health services	-	-	-	-
0034	Student transportation	-	-	35,764	-
0035	Food service	-	-	-	-
0036	Extracurricular activities	-	-	-	-
0041	General administration	-	-	-	-
0051	Plant maintenance and operations	-	-	-	-
0053	Data processing services	-	-	-	-
0061	Community services	-	-	-	-
6030	Total Expenditures	<u>12,716</u>	<u>107,867</u>	<u>887,337</u>	<u>20,496</u>
1100	Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
7915	Transfers in	-	-	-	-
7080	Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
1200	<b>Net change in fund balances</b>	-	-	-	-
0100	Fund balance - September 1 (beginning)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
3000	<b>Fund balance - August 31 (ending)</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>



226	240	243	244	255	262	269
IDEA-B Discretionary	Child Nutrition	Vocational Ed - Tech Prep	Vocational Ed -Basic	Title II, Part A	Enhancing Ed Through Tech	Title V, Part A
\$ -	\$ 1,485,480	\$ -	\$ -	\$ -	\$ -	\$ -
-	35,456	-	-	-	-	-
249,273	140,506	7,327	30,508	93,410	1,852	11,449
<u>249,273</u>	<u>1,661,442</u>	<u>7,327</u>	<u>30,508</u>	<u>93,410</u>	<u>1,852</u>	<u>11,449</u>
249,273	-	6,524	29,579	-	-	11,420
-	-	-	-	-	-	-
-	-	803	929	86,216	1,266	-
-	-	-	-	468	163	29
-	-	-	-	6,726	423	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	1,566,044	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>249,273</u>	<u>1,566,044</u>	<u>7,327</u>	<u>30,508</u>	<u>93,410</u>	<u>1,852</u>	<u>11,449</u>
-	95,398	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	95,398	-	-	-	-	-
-	18,799	-	-	-	-	-
<u>\$ -</u>	<u>\$ 114,197</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCE - ALL NONMAJOR GOVERNMENTAL FUNDS**  
*For the Year Ended August 31,2006*

<u>Data</u>	289	350	393	397
<u>Control</u>	<u>Emergency</u>	<u>SSA-Title III,</u>	<u>Texas</u>	<u>Advanced</u>
<u>Codes</u>	<u>Impact Aid</u>	<u>Part A, ELA</u>	<u>Successful</u>	<u>Placement</u>
			<u>Schools</u>	<u>Incentive</u>
<b>REVENUES</b>				
5700	Local, intermediate, and out-of-state	\$ -	\$ -	\$ -
5800	State program revenues	-	-	30,279
5900	Federal program revenues	30,275	4,673	-
5020	Total revenues	<u>30,275</u>	<u>4,673</u>	<u>30,279</u>
<b>EXPENDITURES</b>				
<b>Current:</b>				
0011	Instruction	9,797	2,128	4,163
	Instruction resources and media			
0012	services	-	-	-
	Curriculum and instructional staff			
0013	development	-	2,545	8,295
0021	Instructional leadership	1,643	-	-
0023	School leadership	9,325	-	-
	Guidance, counseling and evaluation			
0031	services	6,505	-	-
0033	Health services	392	-	-
0034	Student transportation	-	-	-
0035	Food service	1,360	-	-
0036	Extracurricular activities	-	-	-
0041	General administration	902	-	-
0051	Plant maintenance and operations	-	-	-
0053	Data processing services	351	-	-
0061	Community services	-	-	-
6030	Total Expenditures	<u>30,275</u>	<u>4,673</u>	<u>12,458</u>
1100	Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>-</u>	<u>17,821</u>
<b>OTHER FINANCING SOURCES</b>				
<b>(USES)</b>				
7915	Transfers in	-	-	-
7080	Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>-</u>
1200	<b>Net change in fund balances</b>	-	-	17,821
0100	Fund balance - September 1 (beginning)	<u>-</u>	<u>-</u>	<u>23,598</u>
3000	<b>Fund balance - August 31 (ending)</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 41,419</u>

404	411	418	807	808	Total Nonmajor
Student Succ. Init-Acc REA	Technology Allotment	Active Employee Health Ins	Batting Cage Fund	Education Foundation Grants	Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ 49,314	\$ 1,534,794
50,369	154,882	295,921	-	-	566,907
-	-	-	-	-	1,597,689
<u>50,369</u>	<u>154,882</u>	<u>295,921</u>	<u>-</u>	<u>49,314</u>	<u>3,699,390</u>
50,369	143,428	198,744	-	-	1,679,607
-	-	4,504	-	-	4,504
-	2,056	507	-	-	106,788
-	-	1,183	-	-	5,069
-	-	9,202	-	-	25,676
-	-	6,949	-	-	26,170
-	-	3,286	-	-	3,678
-	-	21,271	-	-	57,035
-	-	13,534	-	-	1,580,938
-	-	507	678	34,462	35,647
-	-	6,071	-	-	6,973
-	-	28,219	-	-	28,219
-	24,787	1,690	-	-	26,828
-	-	254	-	-	254
<u>50,369</u>	<u>170,271</u>	<u>295,921</u>	<u>678</u>	<u>34,462</u>	<u>3,587,386</u>
-	(15,389)	-	(678)	14,852	112,004
-	-	-	-	48,473	48,473
-	-	-	-	48,473	48,473
-	(15,389)	-	(678)	63,325	160,477
-	48,957	-	678	(9,039)	85,060
<u>\$ -</u>	<u>\$ 33,568</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 54,286</u>	<u>\$ 245,537</u>

**FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT**  
**COMBINING STATEMENT OF NET ASSETS**  
**INTERNAL SERVICE FUNDS**  
*For the Year Ended August 31, 2006*

Exhibit C-3

<b>Data</b>	<b>753</b>	<b>755</b>	
<b>Control</b>	<b>Employee</b>	<b>Workers Comp</b>	
<b>Codes</b>	<b>Insurance Fund</b>	<b>Fund</b>	<b>Total</b>
<b>ASSETS</b>			
Current assets:			
1110	\$ (10,665)	\$ 1,375,865	\$ 1,365,200
	<u>(10,665)</u>	<u>1,375,865</u>	<u>1,365,200</u>
1000	<u>\$ (10,665)</u>	<u>\$ 1,375,865</u>	<u>\$ 1,365,200</u>
<b>LIABILITIES:</b>			
Current Liabilities:			
2110	\$ 29,341	\$ 56,679	\$ 86,020
	<u>29,341</u>	<u>56,679</u>	<u>86,020</u>
Non-current liabilities:			
2590	<u>410,627</u>	<u>418,828</u>	<u>829,455</u>
	<u>410,627</u>	<u>418,828</u>	<u>829,455</u>
2000	<u>439,968</u>	<u>475,507</u>	<u>915,475</u>
<b>NET ASSETS:</b>			
3300	<u>(450,633)</u>	<u>900,358</u>	<u>449,725</u>
3000	<u>(450,633)</u>	<u>900,358</u>	<u>449,725</u>
4000	<u>\$ (10,665)</u>	<u>\$ 1,375,865</u>	<u>\$ 1,365,200</u>

**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, 2006*

<b>Data</b>	<b>753</b>	<b>755</b>		
<b>Control</b>	<b>Employee</b>	<b>Workers Comp</b>		
<b>Codes</b>	<b>Insurance Fund</b>	<b>Fund</b>	<b>Total</b>	
<b>OPERATING REVENUES</b>				
5749	Miscellaneous revenue from local sources	\$ 989,423	\$ -	\$ 989,423
5754	Quasi-external interfund transactions	<u>1,045,097</u>	<u>100,000</u>	<u>1,145,097</u>
5020	Total operating revenues	<u>2,034,520</u>	<u>100,000</u>	<u>2,134,520</u>
<b>OPERATING EXPENSES</b>				
6400	Claims expense and other operating expenses	<u>2,489,914</u>	<u>127,294</u>	<u>2,617,208</u>
6030	Total Operating Expenses	<u>2,489,914</u>	<u>127,294</u>	<u>2,617,208</u>
1200	<b>Operating Income (Loss)</b>	<u>(455,394)</u>	<u>(27,294)</u>	<u>(482,688)</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>				
7955	Earnings - temporary deposits and investments	<u>7,324</u>	<u>54,935</u>	<u>62,259</u>
	Total Nonoperating Revenues	<u>7,324</u>	<u>54,935</u>	<u>62,259</u>
1200	<b>Change in Net Assets</b>	(448,070)	27,641	(420,429)
0100	Net Assets - September 1 (Beginning)	<u>(2,563)</u>	<u>872,717</u>	<u>870,154</u>
3300	<b>Net Assets - August 31 (Ending)</b>	<u>\$ (450,633)</u>	<u>\$ 900,358</u>	<u>\$ 449,725</u>

**FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT**  
**COMBINING STATEMENT OF CASH FLOWS**  
**INTERNAL SERVICE FUNDS**  
*Year Ended August 31, 2006*

Exhibit C-5

	<b>753</b>	<b>755</b>	
	<b>Employee</b>	<b>Workers</b>	<b>Total</b>
	<b>Insurance</b>	<b>Comp Fund</b>	
	<b>Fund</b>	<b>Fund</b>	<b>Total</b>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>			
<b>Cash Flows from Operating Activities:</b>			
Cash received from customers	\$ 989,423	\$ -	\$ 989,423
Cash receipts from quasi-external operating activities with other funds	1,045,097	100,000	1,145,097
Cash payments to suppliers for goods and services	<u>(2,398,679)</u>	<u>(135,072)</u>	<u>(2,533,751)</u>
<b>Net Cash Provided by (Used for) Operating Activities</b>	<u>(364,159)</u>	<u>(35,072)</u>	<u>(399,231)</u>
<b>Cash Flows from Investing Activities:</b>			
Investment proceeds (net)			-
Interest on investments	7,324	54,935	62,259
<b>Net Cash Provided by Investing Activities</b>	<u>7,324</u>	<u>54,935</u>	<u>62,259</u>
Net Increase in Cash and Cash Equivalents	<u>(356,835)</u>	<u>19,863</u>	<u>(336,972)</u>
Cash and Cash Equivalents at Beginning of Year	<u>346,170</u>	<u>1,356,002</u>	<u>1,702,172</u>
<b>Cash and Cash Equivalents at End of Year</b>	<u>\$ (10,665)</u>	<u>\$ 1,375,865</u>	<u>\$ 1,365,200</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>			
Operating Income (Loss)	\$ (455,394)	\$ (27,294)	\$ (482,688)
Change in Assets and Liabilities:			
Increase (decrease) in Accounts Payable	(25,572)	(2,044)	(27,616)
Increase (decrease) in Claims Payable	<u>116,807</u>	<u>(5,734)</u>	<u>111,073</u>
<b>Net Cash Provided by (Used for) Operating Activities</b>	<u>\$ (364,159)</u>	<u>\$ (35,072)</u>	<u>\$ (399,231)</u>

**FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT**  
**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES**  
**ALL AGENCY FUNDS**  
*For the Year Ended August 31, 2006*

Exhibit C-6

	<u>Balance</u> <u>August 31,</u> <u>2005</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>August 31,</u> <u>2006</u>
<b>Student Activity Account</b>				
Assets:				
1110 Cash and temporary investments	\$ 1,316,099	\$ 3,440,695	\$ 4,166,734	\$ 590,060
1260 Due from other funds	-	128,939	-	128,939
	<u>\$ 1,316,099</u>	<u>\$ 3,569,634</u>	<u>\$ 4,166,734</u>	<u>\$ 718,999</u>
Liabilities:				
2170 Due to other funds	\$ 539,169	\$ -	\$ 539,169	\$ -
2190 Due to student and employee groups	776,930	3,569,634	3,627,565	718,999
Total liabilities	<u>\$ 1,316,099</u>	<u>\$ 3,569,634</u>	<u>\$ 4,166,734</u>	<u>\$ 718,999</u>
<b>Employee Flex Plan</b>				
Assets:				
1110 Cash and temporary investments	\$ 15,588	\$ 317,834	\$ 324,540	\$ 8,882
1290 Other receivables	44,558	-	24,558	20,000
	<u>\$ 60,146</u>	<u>\$ 317,834</u>	<u>\$ 349,098</u>	<u>\$ 28,882</u>
Liabilities:				
2150 Payroll deductions and withholdings payable	\$ 15,588	\$ 311,128	\$ 317,834	\$ 8,882
2170 Due to other funds	44,558	-	24,558	20,000
Total liabilities	<u>\$ 60,146</u>	<u>\$ 311,128</u>	<u>\$ 342,392</u>	<u>\$ 28,882</u>
<b>Employee 403(b) Plan</b>				
Assets:				
1110 Cash and temporary investments	\$ 2,655	\$ 265,615	\$ 265,615	\$ 2,655
Liabilities:				
2150 Payroll deductions and withholdings payable	\$ 2,655	\$ 265,615	\$ 265,615	\$ 2,655
<b>TOTAL AGENCY FUNDS</b>				
Assets:				
1110 Cash and temporary investments	\$ 1,334,342	\$ 4,024,144	\$ 4,756,889	\$ 601,597
1260 Due from other funds	-	128,939	-	128,939
1290 Other receivables	44,558	-	24,558	20,000
	<u>\$ 1,378,900</u>	<u>\$ 4,153,083</u>	<u>\$ 4,781,447</u>	<u>\$ 750,536</u>
Liabilities:				
2150 Payroll deductions and withholdings payable	\$ 18,243	\$ 576,743	\$ 583,449	\$ 11,537
2170 Due to other funds	583,727	-	563,727	20,000
2190 Due to student and employee groups	776,930	3,569,634	3,627,565	718,999
Total liabilities	<u>\$ 1,378,900</u>	<u>\$ 4,146,377</u>	<u>\$ 4,774,741</u>	<u>\$ 750,536</u>

**FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT**  
**Combining Statement of Net Assets**  
**Private Purpose Trust Funds**  
*August 31, 2006*

Exhibit C-7

	891	892	
	<u>Cline Scholarship Fund</u>	<u>Winston Scholarship Fund</u>	<u>Total Private Purpose Trust Funds</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 2,232	\$ 12,296	\$ 14,528
Total assets	<u>2,232</u>	<u>12,296</u>	<u>14,528</u>
<b>NET ASSETS</b>			
Unrestricted net assets	<u>\$ 2,232</u>	<u>\$ 12,296</u>	<u>\$ 14,528</u>



**FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT**  
**Combining Statement of Revenues, Expenses, and Changes in Net Assets**  
**Private Purpose Trust Funds**  
*For the Year Ended August 31, 2006*

Exhibit C-8

	891	892	Total Private
	Cline Scholarship	Winston	Purpose Trust
	Fund	Scholarship Fund	Funds
Change in net assets	\$ -	\$ -	\$ -
Net assets beginning of year	2,232	12,296	14,528
<b>Net assets end of year</b>	<b>\$ 2,232</b>	<b>\$ 12,296</b>	<b>\$ 14,528</b>

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT  
 SCHEDULE OF DELINQUENT TAXES RECEIVABLE  
 For the year ended August 31, 2006

Last Ten Years Ended August 31,	1		2	3	10	20	31	32	40	50
	Maintenance	Debt Service								
1997 and prior years	1.447570	0.142430	864,947,044	51,426	-	5,571	548	(771)		44,536
1998	1.432620	0.142380	866,493,999	7,419	-	3,158	314	-		3,946
1999	1.432700	0.239300	897,659,539	11,629	-	3,359	561	-		7,709
2000	1.388000	0.147000	996,486,515	18,190	-	6,077	644	(695)		10,774
2001	1.448000	0.137000	1,084,906,369	19,310	-	18,032	1,706	11,903		11,475
2002	1.480000	0.137000	1,199,063,080	32,016	-	19,340	1,790	10,008		20,893
2003	1.500000	0.137000	1,322,337,607	59,871	-	24,213	2,211	13,956		47,402
2004	1.500000	0.137000	1,457,665,058	107,551	-	66,528	6,076	33,756		68,704
2005	1.500000	0.137000	1,529,840,326	338,094	-	252,010	23,017	36,554		99,622
2006 (school year under audit)	1.500000	0.137000	1,624,895,916	-	26,599,546	24,141,744	2,204,946	38,044		290,900
1000 TOTALS				\$ 645,507	\$ 26,599,546	\$ 24,540,033	\$ 2,241,814	\$ 142,755	\$	\$ 605,961

**FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT**  
**SCHEDULE OF EXPENDITURES FOR COMPUTATIONS OF INDIRECT COST FOR 2007-2008**  
**GENERAL AND SPECIAL REVENUE FUNDS**  
*For the Year Ended August 31, 2006*

Exhibit C-10

FUNCTION 41 AND RELATED FUNCTION 53 - GENERAL ADMINISTRATION

Account Number	Account Name	1 702 School Board	2 703 Tax Collection	3 701 Supt's Office	4 750 Indirect Cost	5 720 Direct Cost	6 (other) Miscellaneous	7 Total	
611X-6146	PAYROLL COSTS	-	114,633	251,941	570,710	48,650	-	985,934	
	Fringe Benefits (Unused Leave for Separating Employees in Function 41 and Related 53)							-	
6149	Fringe Benefits (Unused Leave for Separating Employees in all Functions except Function 41 and Related 53)							-	
6211	Legal Services	129,465	-	-	-	-	-	129,465	
6212	Audit Services							32,100	
6213	Tax Appraisal and Collection							212,468	
621X	Other Prof. Services	4,885	-	-	5,946	11,100	-	21,931	
6220	Tuition and Transfer Payments							-	
6230	Education Service Centers							-	
6240	Contr. Maint. and Repair							444	
6250	Utilities							-	
6260	Rentals	-	16,923	1,004	2,427	-	-	20,354	
6290	Miscellaneous Contr.	-	-	800	99,182	4,623	-	104,605	
6320	Textbooks and Reading	-	-	-	-	-	-	-	
6330	Testing Materials	-	-	-	-	-	-	-	
63XX	Other Supplies Materials	1,817	6,889	19,962	24,500	8,568	-	61,736	
6410	Travel, Subsistence, Stipends	2,699	1,329	4,604	7,464	2,025	-	18,121	
6420	Ins. and Bonding Costs	-	-	16,328	-	-	-	16,328	
6430	Election Costs	10,188							10,188
6490	Miscellaneous Operating	5,488	742	19,911	23,095	6,767	-	56,003	
6500	Debt Service							-	
6600	Capital Outlay							-	
6000	TOTAL	154,542	352,984	314,550	765,424	82,177	-	1,669,677	

Total expenditures/expenses for General and Special Revenue Funds  
 (plus Food Service Enterprise Fund if present) 9 36,550,304

LESS: Deductions of Unallowable Costs

Total Capital Outlay (6600)	10	4,249,319
Total Debt & Lease (6500)	11	2,642,070
Plant Maintenance (Function 51, 6100-6400)	12	3,091,163
Food (Function 35, 6341 and 6499)	13	1,570,652
Stipends (6413)	14	-
Column 4 (above) - Total Indirect Cost		765,424

Net Allowed Direct Cost 24,231,676

Total Cost of Buildings before Depreciation (1520)	15	47,337,836
Historical Cost of Buildings over 50 years old	16	-
Amount of Federal Money in building Cost (Net of #16)	17	-
Total Cost of Furniture & Equipment before Depreciation (1530&1540)	18	5,622,726
Historical Cost of Furniture & Equipment over 16 years old	19	350,000
Amount of Federal Money in Furniture & Equipment (Net of #19)	20	-

**FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT** **EXHIBIT C-11**  
**FUND BALANCE AND CASH FLOW CALCULATION SCHEDULE (UNAUDITED)**  
**GENERAL FUND**  
*August 31, 2006*

1. Total General Fund balance August 31,2006 (Exhibit A-3 object 3000 for the General Fund only)	\$ 7,337,406
2. Total Reserved Fund balance August 31,2006 (from Exhibit A-3 - total of object 3400s for the General Fund only)	1,022,225
3. Total Designated Fund balance August 31,2006 (from Exhibit A-3 - total of object 3500s for the General Fund only)	569,656
4. Estimated amount needed to cover fall cash flow deficits in the General Fund (net of borrowed funds and funds representing deferred revenues)	-
5. Estimate of one month average cash disbursements during the regular school session (09/01/2005 to 05/31/2006)	3,000,000
6. Estimate of delayed payments from state sources (58xx) including August payment delays	-
7. Estimate of underpayment from state sources equal to variance between Legislative Payment Estimate (LPE) and District Planning Estimate (DPE) or District's calculated earned state aid amount	-
8. Estimate of delayed payments from federal sources (59xx)	-
9. Estimate of expenditures to be reimbursed to General 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)	<u>4,591,881</u>
11. Excess or deficit Undesignated, Unreserved General Fund Balance	<u>\$ 2,745,525</u>

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.

As noted in the Notes to Financial Statements, the District's health insurance internal service fund may require a contribution from then General Fund. The deficit equity in the fund amounts to approximately \$450,000.

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, 2006*

Data Control Codes	Food Service				Debt Service Fund				Variance Favorable (Unfavorable)
	Budget		Actual		Budget		Actual		
	Original	Final	Actual	Variance Favorable (Unfavorable)	Original	Final	Actual	Variance Favorable (Unfavorable)	
<b>REVENUES:</b>									
5700	1,402,380	1,402,380	\$ 1,485,480	\$ 83,100	\$ 2,220,770	\$ 2,259,268	\$ 2,396,940	\$ 137,672	
5800	-	-	35,456	35,456	498,930	498,930	523,600	24,670	
5900	79,112	79,112	140,506	61,394	-	-	-	-	
5030	1,481,492	1,481,492	1,661,442	179,950	2,719,700	2,758,198	2,920,540	162,342	
<b>EXPENDITURES:</b>									
Current:									
0035	1,587,806	1,587,806	1,566,044	21,762	-	-	-	-	
0071	-	-	-	-	1,565,000	1,565,000	1,565,000	-	
0171	-	-	-	-	926,530	926,530	928,292	(1,762)	
6030	1,587,806	1,587,806	1,566,044	21,762	2,491,530	2,491,530	2,493,292	(1,762)	
1100	(106,314)	(106,314)	95,398	201,712	228,170	266,668	427,248	160,580	
<b>OTHER FINANCING SOURCES (USES)</b>									
7990	-	-	-	-	-	-	2,725,000	2,725,000	
8990	-	-	-	-	-	-	(2,730,866)	(2,730,866)	
1200	(106,314)	(106,314)	95,398	201,712	228,170	266,668	421,382	154,714	
0100	18,799	18,799	18,799	-	2,140,832	2,140,832	2,140,832	-	
3000	<u>\$ (87,515)</u>	<u>\$ (87,515)</u>	<u>\$ 114,197</u>	<u>\$ 201,712</u>	<u>\$ 2,369,002</u>	<u>\$ 2,407,500</u>	<u>\$ 2,562,214</u>	<u>\$ 154,714</u>	

*(This page intentionally left blank)*

**FEDERAL AWARDS SECTION**

*(This page intentionally left blank)*



11 Greenway Plaza, Suite 1515  
Houston, TX 77046  
(713) 621-1515  
Fax: (713) 621-1570



2117 Post Office Street  
Galveston, TX 77550  
(409) 762.8380  
Fax: (409) 762-1749

***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, 2006 which collectively comprise the District's basic financial statements and have issued our report thereon dated November 09, 2006. 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 in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

***Compliance and Other Matters***

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

***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.

Null-Lairson, PC

Texas City, Texas  
November 09, 2006

*(this page intentionally left blank)*

11 Greenway Plaza, Suite 1515  
Houston, TX 77046  
(713) 621-1515  
Fax: (713) 621-1570



2117 Post Office Street  
Galveston, TX 77550  
(409) 762.8380  
Fax: (409) 762-1749

***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 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, 2006. 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 District 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 on the District's compliance with compliance with those requirements.

In our opinion, the District complied, in all material respects, with requirements referred to above that are applicable to each of its major federal programs for the year ended August 31, 2006.

***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 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 and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

***Schedule of Expenditures of Federal Awards***

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of and for the year ended August 31, 2006 which collectively comprise the District's basic financial statements and have issued our report thereon dated November 09, 2006. Our audit was performed for the purpose of forming opinions on these basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. This schedule is the responsibility of the District's management. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

***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.

NULL-LAIRSON, PC



Texas City, Texas  
November 09, 2006

**FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
*FOR THE YEAR ENDED AUGUST 31, 2006*

**I. SUMMARY OF AUDITORS' RESULTS**

**Financial Statements**

Type of auditors' report issued:	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Reportable condition(s) identified that are not considered to be material weaknesses?	None Noted
Noncompliance material to financial statements noted?	No

**Federal Awards**

Internal control over major programs:	
Material weakness(es) identified?	No
Reportable condition(s) 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?	None

Identification of major programs

Name of Federal Program or Cluster	CFDA Numbers
<b>US Department of Education</b>	
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, 2006*

**II. FINANCIAL STATEMENT FINDINGS**

The audit disclosed no findings or questioned costs required to be reported.

**III. FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS**

The audit disclosed no findings or questioned costs required to be reported.

**IV. SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

<b>Finding #</b>	<b>Corrective Action Taken</b>
N/A	N/A

**V. CORRECTIVE ACTION PLAN**

N/A

**FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
*For the Year Ended August 31, 2006*

(1)	(2)	(3)	(4)	
Project Number	Federal CFDA Number	Expenditures Indirect Costs and Refunds	Pass Through Amounts to Subrecipients	
<b><u>U.S. DEPARTMENT OF EDUCATION</u></b>				
<u>Passed through the State Department of Education:</u>				
6610101084911	ESEA, Title I, Part A	84.010A	107,867	-
66600010849116600	IDEA, Part B - Formula	84.027A	826,386	-
76600010849116600	IDEA, Part B - Formula	84.027A	60,951	-
66600020849116600	IDEA, Part B - Discretionary	84.027A	249,273	-
642000608491104	Carl D. Perkins, Title I, Part C	84.048A	30,508	-
66610010849116600	IDEA, Part B - Preschool	84.173A	18,817	-
76610010849116600	IDEA, Part B - Preschool	84.173A	1,679	-
6691001084911	ESEA, Title IV, Part A, Safe and Drug Free Schools	84.186A	12,716	-
6685001084911	ESEA, Title V, Part A, Innovative Programs	84.298A	11,449	-
084-911	ESEA, Title III, LEP/Immigrant	84.365	4,673	4,673
6630001084911	ESEA, Title II, Part D, Enhancing Education	84.318X	1,852	-
6694501084911	ESEA, Title II, Part A, Teacher and Principal Training	84.367A	90,288	-
7694501084911	ESEA, Title II, Part A, Teacher and Principal Training	84.367A	3,121	-
Total Passed through State Department of Education			<u>1,419,580</u>	<u>4,673</u>
<u>Passed through Texas Higher Ed. Coordinating Board to North Harris Montgomery Community College</u>				
084-911	Vocational Education - Tech. Prep.	84.243A	7,327	-
Total Vocational Education - Tech. Prep.			<u>7,327</u>	-
Total Passed through Programs			<u>1,426,907</u>	<u>4,673</u>
<b>TOTAL DEPARTMENT OF EDUCATION</b>			<u>1,426,907</u>	<u>4,673</u>
<b><u>U.S. DEPARTMENT OF HOMELAND SECURITY</u></b>				
<u>Passed through State Department of Education</u>				
6520301084911	Temporary Emergency Impact Aid	84.938C	30,275	-
			<u>30,275</u>	-
Total Passed through Programs			<u>30,275</u>	-
<b>TOTAL DEPARTMENT OF HOMELAND SECURITY</b>			<u>30,275</u>	-
<b><u>U.S. DEPARTMENT OF AGRICULTURE</u></b>				
<u>Passed through State Department of Education</u>				
71300601	National School Lunch Program*	10.555	88,133	-
084-911	U.S.D.A. Donated Commodities*	10.565	52,373	-
			<u>140,506</u>	-
Total Passed through Programs			<u>140,506</u>	-
<b>TOTAL DEPARTMENT OF AGRICULTURE</b>			<u>140,506</u>	-
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<u>\$ 1,597,688</u>	<u>\$ 4,673</u>

**FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**EXHIBIT D-2**

**NOTE 1 -BASIS OF ACCOUNTING**

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

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

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

**NOTE 2 - RECONCILIATION TO BASIC FINANCIAL STATEMENTS**

The following is a reconciliation of expenditures of federal awards program per Exhibit E-1 and expenditures reported on Exhibit A-5:

Total shown on Schedule of Expenditures of Federal Awards	\$ 1,597,688
Medicaid Administrative Claiming revenue accounted for in the General Fund	<u>1,320</u>
Total Federal Revenue - Exhibit A-5	<u>\$ 1,599,008</u>

**NOTE 3 – GENERAL FUND EXPENDITURES**

Federal Awards reported in the general fund are summarized as follows:

Medicaid Administrative Claiming	\$ 1,320
	<u>\$ 1,320</u>



**DO NOT BIND IN REPORT**

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT	
<b>STATE SUMMARY OF AUDIT RESULTS</b>	
<b>SCHEDULE L-1</b>	
<b>YEAR ENDED AUGUST 31, 2006</b>	
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