

**FRIENDSWOOD INDEPENDENT
SCHOOL DISTRICT**

**ANNUAL FINANCIAL AND
COMPLIANCE REPORT**

For The Year Ended August 31, 2010



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CERTIFICATE OF BOARD

Friendswood Independent School District

Name of School District

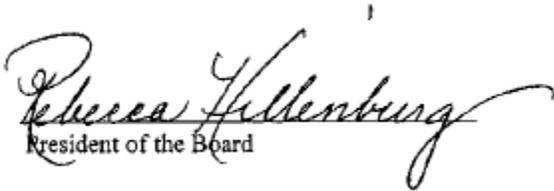
Galveston

County

084-911

Co. - Dist. No.

We, the undersigned, certify that the attached annual financial reports of the above named school district were reviewed and approved for the year ended August 31, 2010, at a meeting of the board of trustees of such school district on December 13, 2010.


Rebecca Hillenburg
President of the Board


Vice President of the Board

Financial Section



Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Friendswood Independent School District (the "District") as of and for the year ended August 31, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of August 31, 2010, 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 December 10, 2010, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of law, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

The management's discussion and analysis and budgetary comparison information on pages 5 to 13 and pages 55 through 56, respectively, 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 required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining and individual fund statements and 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. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-profit Organizations and is also not a required part of the basic financial statements. 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. The Statistical Section listed in the foregoing table of contents has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.



Texas City, Texas
December 10, 2010

Management's Discussion and Analysis

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FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Friendswood Independent School District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended August 31, 2010.

Financial Highlights

The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$18,059,002. Of this amount, \$9,118,163 may be used to meet the District's ongoing obligations to students and creditors.

- The District's total net assets decreased by \$1,688,777 during the current fiscal year.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$33,131,802, decrease of \$49,548,955 in comparison with the prior year. The decrease in governmental fund balances was primarily due to the construction of facilities in the capital projects fund.
- At the end of the current fiscal year, unreserved, undesignated fund balance for the general fund was \$4,821,229, or 13% of total general fund expenditures.
- The District's bonded debt decreased by \$2,370,000 during the current fiscal year

Overview of the Financial Statements

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

Government-wide Financial Statements

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

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

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

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

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

Fund Financial Statements

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

Governmental Funds

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

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

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

Proprietary Fund

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

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

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

Fiduciary Fund

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

Notes to the Financial Statements

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

Required Supplementary Information

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

Other Information

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

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a District's financial position. In the case of the District, assets exceeded liabilities by \$18,059,002 at the close of the most recent fiscal year.

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

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

	Governmental Activities	
	2010	2009
Current and other assets	\$ 43,695,357	\$ 98,056,617
Capital and non current assets	103,067,261	57,306,828
Total Assets	146,762,618	155,363,445
Current liabilities	8,163,422	12,669,225
Long term liabilities	120,540,194	122,946,442
Total Liabilities	128,703,616	135,615,667
Net Assets:		
Invested in capital assets net of related debt	5,483,161	7,020,945
Restricted	3,457,678	4,602,970
Unrestricted	9,118,163	8,123,863
Total Net Assets	\$ 18,059,002	\$ 19,747,778

Net assets are restricted for various purposes as follows:

	Governmental Activities	
	2010	2009
Federal and state programs	\$ 113,968	\$ 256,716
Food Service	263,701	162,173
Debt Service	2,236,157	3,423,423
Capital Projects		
Campus Activities	843,852	760,660
	\$ 3,457,678	\$ 4,602,972

The remaining balance of unrestricted net assets \$9,118,163 may be used to meet the District's ongoing obligations to students and creditors. At the end of the current fiscal year, the District reports positive balances in all three categories of net assets. The District's net assets decreased by \$1,688,777 during the current fiscal year.

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

Comparative Schedule of Changes in Net Assets

	Governmental Activities	
	2010	2009
Program Revenues		
Charges for services	\$ 2,932,313	\$ 2,601,013
Operating grants	5,836,404	4,498,316
General Revenues		
Property taxes	27,853,161	27,193,245
State Aid - Formula Grants	14,146,292	14,788,213
Grants and contributions not restricted	104,285	185,663
Interest earnings	264,366	3,260,974
Other	761,494	682,024
Total Revenues	51,898,315	53,209,448
Expenses		
Instruction	27,695,110	26,938,092
Instructional resources and media services	842,654	1,003,003
Curriculum and staff development	75,676	142,077
Instructional leadership	876,375	811,358
School leadership	2,344,332	2,326,724
Guidance, counseling, and evaluation services	929,372	963,477
Social work services	71,308	62,339
Health services	498,225	469,674
Student transportation	1,402,373	1,319,989
Food service	2,227,706	2,139,996
Extracurricular activities	1,620,382	1,528,049
General administration	2,060,475	2,058,480
Plant, maintenance and operations	3,287,764	3,280,997
Security and monitoring services	117,802	142,881
Data processing services	2,418,254	884,922
Community services	153,363	122,180
Interest on long-term debt	5,555,968	5,326,170
Debt issuance costs and fees	(574)	1,201
Facilities acquisition and construction	105,814	3,141
Payments related to shared services arrangements	1,091,684	1,093,283
Payments to Juvenile Justice Alternative Education Programs	17,882	20,324
Other governmental charges	155,672	253,876
Total Expenses	53,547,617	50,892,233
Excess (deficiency) before special items and transfers	(1,649,302)	2,317,215
Increase (Decrease) in Net Assets	(1,649,302)	2,317,215
Beginning net assets	19,747,779	17,430,563
Prior Period Adjustment	(39,475)	
Ending Net Assets	\$ 18,059,002	\$ 19,747,779

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

Governmental Activities

Governmental activities decreased the District's net assets by \$1,688,777. Revenues are generated primarily from three sources. Property taxes, state-aid formula grants, and operating grants and contributions represent 92.2 percent of total revenues. The remaining 7.8 percent is generated from charges for services, investment earnings, and miscellaneous revenues.

	Total Revenues	% of Total Revenues
Property taxes	\$ 27,853,161	54%
State Aid - Formula Grants	14,146,292	27%
Operating grants and contributions	5,940,689	11%
Other revenue	3,958,173	8%
Total Revenues	\$ 51,898,315	100%

The primary functional expenses of the District are instruction and interest on long-term debt, which represents 62 percent of total expenses. The remaining individual functional categories of expenses are each less than 10 percent of total expenses.

	Total Expenses	% of Total Expenses
Instruction	\$ 27,695,110	52%
Interest on long-term debt	5,555,968	10%
Other expenses	20,296,539	38%
Total Expenses	\$ 53,547,617	100%

Financial Analysis of the Government's Funds

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

Governmental Funds

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

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$33,131,802, a decrease of \$49,548,955 in comparison with the prior year.

The general fund is the chief operating fund of the District. At the end of the current fiscal year, unreserved, undesignated fund balance of the general fund was \$4,821,229, while total fund balance reached \$8,663,963. As a measure of the general fund's liquidity, it may be useful to compare both unreserved, undesignated fund balance and total fund balance to total fund expenditures.

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

Unreserved, undesignated fund balance experienced a decrease of \$1,708,743 over the prior year, while total fund expenditures showed a decrease of \$1,320,067. The total fund balance of the District's general fund increased by \$1,018,995 during the current fiscal year.

The debt service fund has a total fund balance of \$2,387,796, all of which is reserved for the payment of debt service. The net decrease in the debt service fund balance during the current year of \$1,189,248 was in line with budgeted expectations.

The capital projects fund has a total fund balance of \$20,858,522, all of which is reserved for authorized construction and technology projects/enhancements. The net decrease in fund balance during the current year of \$49,710,464 was due to the construction of new facilities.

General Fund Budgetary Highlights

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

	Budget	
	Original	Final Amended
Total revenues	\$ 39,477,780	\$ 39,497,030
Total expenditures	39,477,780	39,480,519
Net change in fund balance	\$	\$ 16,511

Capital Assets and Long-Term Liabilities

Capital Assets

The District's investment in capital assets for its governmental type activities as of August 31, 2010, includes land, buildings and improvements, furniture and equipment, and construction in progress. The investment in capital assets (capital outlays) during the current year amounted to \$47,969,224. The following table summarizes the investment in capital assets as of August 31, 2010 and 2009.

	2010	2009
Land	\$ 1,990,385	\$ 1,990,385
Buildings and improvements	52,388,634	50,489,723
Furniture and equipment	4,873,920	4,583,006
Leased assets under capital lease	144,147	144,147
Construction in progress	74,627,928	28,938,134
Total	134,025,014	86,145,395
Accumulated depreciation	(30,957,753)	(28,838,567)
Net capital assets	\$ 103,067,261	\$ 57,306,828

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

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

Long-term Liabilities

At the end of the current fiscal year, the District had \$116,114,978 in bonded debt outstanding, a decrease of \$2,370,000 over the previous year. The District's bonds are sold with a "AAA" rating and are guaranteed through the Texas Permanent School Fund Guarantee Program or by a municipal bond insurance policy. The underlying rating of the bonds from Standard and Poor's is "A+" and from Moody's Investors Service is "Aa2" for general obligation debt.

Changes in long-term debt, for the year ended August 31, 2010, are as follows:

Outstanding 09/01/09	Issued	Retired	Outstanding 08/31/10
<u>\$ 118,484,978</u>	<u>\$ 2,565,000</u>	<u>\$ (4,935,000)</u>	<u>\$ 116,114,978</u>

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

Economic Factors and Next Year's Budgets and Rates

- The Tax Rate for 2010-2011 is \$1.367 (\$1.04 for M&O; \$.327 for I&S). The legislature set the maximum M&O tax rate at \$1.00 but gave districts the option to assess four additional cents, which FISD has passed. These four additional pennies have been referred to as "super pennies"
- Operating Expenses per student is \$6,865 for 2010-2011 based on the general operating budget.
- The District's 2010-2011 refined average daily attendance is budgeted to be 5,751 and increase of .32% from the previous year.

These indicators were taken into account when adopting the budget for 2010-2011. The General Operating Friendswood Independent School District adopted budget for 2010-2011 is \$39,479,559.

Expenditures are budgeted to increase .005% to 39.4 million.

In 2009-2010 HB 3646 required all school districts to increase base pay for teachers, nurses, libraries, counselors, and speech pathologists by a minimum of the higher of \$80/month or \$60/WADA and an additional step according to any published schedule by the district. This mandate required Friendswood ISD to raise each teacher's pay by a minimum of \$1,010 annually plus an additional step which ranged anywhere from \$100 to \$1,105. Along with this bill a ruling was made mandating an additional step increase for the above listed positions for the 2010-2011 year. This increase ranged from \$500 to \$1,105 annually. All other employees received a 1% raise not to exceed \$500 for the 2010-2011 year.

Due to an anticipated shortfall in funding, a reduction in force (RIF) was declared in an attempt to reduce expenditures. This RIF provided approximately \$650,000 in savings throughout the District in payroll expenses.

Also, in an effort to reduce expenditures, the zero based budgeting method was implemented to create the 2010-2011 budget. This budgeting method led to a decrease in expenditures in areas other than payroll of \$125,000.

The increase in payroll expenditures due to mandated pay-raise coupled with the savings from the reduction in force and zero based budgeting method created a net effect of the .005% increase in expenditures.

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

Residential and commercial new property development is the primary source of expected value increase for Friendswood ISD tax levy. For the 2010 tax year values are expected to increase by approximately 5%.

The new Friendswood Junior High building, additions and renovations to Friendswood High School, and the natatorium were all completed for the opening of the 2010-2011 school year. The old junior high building is being renovated to house the Friendswood Tax Office, Special Education Department, Technology Services, and Food Service Department. These departments are scheduled to move into the building by January 2011. The stadium, baseball, and softball field renovations are underway and scheduled to be completed during the 2010-2011 year.

Requests for Information

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

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Basic Financial Statements

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FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT

Exhibit A-1

STATEMENT OF NET ASSETS

August 31, 2010

<u>Data Control Codes</u>		<u>Governmental Activities</u>
	Assets	
1110	Cash and cash equivalents	\$ 32,469,677
1225	Property taxes receivables, net	582,447
1240	Due from other governments	538,937
1250	Accrued interest	124,074
1267	Due from fiduciary funds	20,000
1290	Other receivables, net	273,729
1300	Inventories	132,214
1420	Capital bond and other debt issuance costs	983,160
	Capital assets not subject to depreciation:	
1510	Land	1,990,385
1580	Construction in progress	74,627,928
	Capital assets net of depreciation:	
1520	Buildings and improvements, net	25,429,039
1530	Furniture and equipment, net	875,762
1550	Capital lease assets, net	144,147
1910	Long-term investments	8,571,119
1000	Total Assets	<u>146,762,618</u>
	Liabilities	
2110	Accounts payable	4,830,219
2140	Interest payable	250,829
2150	Payroll deductions and withholdings	1,071
2160	Accrued wages payable	2,318,197
2190	Due to student groups	388,684
2300	Unearned revenue	236,919
2400	Payable from restricted assets	137,503
	Noncurrent Liabilities:	
2501	Due within one year	2,525,000
2502	Due in more than one year	118,015,194
2000	Total Liabilities	<u>128,703,616</u>
	Net Assets	
3200	Invested in capital assets, net of related debt	5,483,161
	Restricted for:	
3820	Federal and state programs	113,968
3840	Food service	263,701
3850	Debt service	2,236,157
3870	Campus activities	843,852
3900	Unrestricted	9,118,163
3000	Total Net Assets	<u>\$ 18,059,002</u>

See Notes to the Financial Statements

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FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
For the Year Ended August 31, 2010

Exhibit B-1

Data Control Codes	Functions/Programs	Expenses	Program Revenue		Net (Expense) Revenue and Changes in Net Assets
			Charges for Services	Operating Grants and Contributions	Primary Governmental Governmental Activities
	Governmental activities:				
11	Instruction	\$ 27,695,110	\$ 25,563	\$ 4,376,061	\$ (23,293,486)
12	Instructional resources and media services	842,654		30,246	(812,408)
13	Curriculum and staff development	75,676		28,553	(47,123)
21	Instructional leadership	876,375		151,480	(724,895)
23	School leadership	2,344,332		189,491	(2,154,841)
31	Guidance, counseling, and evaluation	929,372		116,001	(813,371)
32	Social work services	71,308		42,339	(28,969)
33	Health services	498,225		118,839	(379,386)
34	Student transportation	1,402,373		99,960	(1,302,413)
35	Food service	2,227,706	1,940,204	219,331	(68,171)
36	Extracurricular activities	1,620,382	929,741	61,521	(629,120)
41	General administration	2,060,475		202,803	(1,857,672)
51	Plant, maintenance and operations	3,287,764	36,805	106,110	(3,144,849)
52	Security and monitoring services	117,802			(117,802)
53	Data processing services	2,418,254		91,427	(2,326,827)
61	Community services	153,363		2,242	(151,121)
72	Interest on long-term debt	5,555,968			(5,555,968)
73	Debt issuance costs and fees	(574)			574
81	Facilities acquisition and construction	105,814			(105,814)
93	Payments related to shared services	1,091,684			(1,091,684)
95	Payments to Juvenile Justice Alternative	17,882			(17,882)
99	Other governmental charges	155,672			(155,672)
TG	Total governmental activities	<u>\$ 53,547,617</u>	<u>\$ 2,932,313</u>	<u>\$ 5,836,404</u>	<u>(44,778,900)</u>

Data Control Codes		
	General revenues:	
	Taxes:	
MT	Property taxes, levied for general purposes	21,182,984
DT	Property taxes, levied for debt service	6,670,177
SF	State-aid formula grants	14,146,292
GC	Grants and contributions not restricted	104,285
IE	Investment earnings	264,366
MI	Miscellaneous	761,494
TR	Total general	<u>43,129,598</u>
CN	Change in net assets	(1,649,302)
NB	Net assets - beginning	19,747,779
PA	Prior period adjustments	(39,475)
NE	Net assets - ending	<u>\$ 18,059,002</u>

See Notes to the Financial Statements

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT

BALANCE SHEET

GOVERNMENTAL FUNDS

August 31, 2010

Data Control Codes	General Fund	Debt Service Fund	Capital Projects Fund
Assets			
1110 Cash and temporary investments	\$ 10,807,767	\$ 2,415,830	\$ 16,728,955
Receivables:			
1220 Property taxes - delinquent	562,560	120,804	
1230 Allowance for uncollectible taxes (credit)	(89,331)	(11,586)	
1240 Receivables from other governments	92,359		
1250 Accrued interest			124,074
1260 Due from other funds	467,317		
1290 Other receivables	267,439		
1300 Inventories, at cost	132,214		
1910 Long-term investments			8,571,119
1000 Total Assets	<u>\$ 12,240,325</u>	<u>\$ 2,525,048</u>	<u>\$ 25,424,148</u>
 Liabilities and Fund Balances			
Liabilities:			
2110 Accounts payable	\$ 160,530	\$ 3,500	\$ 4,557,642
2140 Interest payable		1,853	
2150 Payroll withholdings payable	1,071		
2160 Accrued wages payable	2,291,797		7,984
2170 Due to other funds	506,405		
2190 Due to student and employee groups			
2300 Deferred revenues	616,559	131,899	
2000 Total Liabilities	<u>3,576,362</u>	<u>137,252</u>	<u>4,565,626</u>
 Fund Balances:			
Reserved for:			
3410 Investments in inventories	132,214		
3420 Retirement of funded indebtedness		2,387,796	
3440 Encumbrances	16,610		
3450 Food service operations			
3470 Capital projects			20,858,522
3490 Other purposes			
Unreserved, Designated for:			
3590 Other purposes	3,693,910		
Unreserved, Undesignated Reported in:			
3600 General fund	4,821,229		
3610 Special revenue funds			
3000 Total Fund Balance	<u>8,663,963</u>	<u>2,387,796</u>	<u>20,858,522</u>
4000 Total Liabilities and Fund Balances	<u>\$ 12,240,325</u>	<u>\$ 2,525,048</u>	<u>\$ 25,424,148</u>

See Notes to the Financial Statements

Exhibit C-1

Other Governmental Funds	Total Governmental Funds
\$ 1,227,927	\$ 31,180,479
	683,364
	(100,917)
446,576	538,935
	124,074
119,026	586,343
6,290	273,729
	132,214
	8,571,119
<u>\$ 1,799,819</u>	<u>\$ 41,989,340</u>
\$ 89,943	\$ 4,811,615
	1,853
	1,071
18,416	2,318,197
448,622	955,027
	769,775
<u>21,317</u>	<u>8,857,538</u>
<u>578,298</u>	
	132,214
	2,387,796
	16,610
263,701	263,701
	20,858,522
	3,693,910
	4,821,229
957,820	957,820
<u>1,221,521</u>	<u>33,131,802</u>
<u>\$ 1,799,819</u>	<u>\$ 41,989,340</u>

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

Exhibit C-2

August 31, 2010

Data
Control
Codes

Total fund balance, governmental funds \$ 33,131,802

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

1 Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. Capital assets at historical cost, net of accumulated depreciation, where applicable 103,067,261

2 Property taxes receivable have been levied and are due this year, but are not available soon enough to pay for the current period's expenditures, these property taxes and related penalty and interest amounts (net of allowance for uncollectible accounts). 532,858

Long-term liabilities, including bonds payable, are not due and payable in the current period, and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:

3	General obligation bonds	(116,114,978)
4	Premiums on issuance	(3,390,100)
5	Bond issuance costs	983,160
6	Deferred charges on refunding	79,296
7	Accreted interest on premium compound interest bonds	(120,502)
8	Accrued compensated absences	(993,910)
9	Accrued interest payable	(248,975)
10	Addition of Internal Service fund net assets	<u>1,133,090</u>
19	Total net assets - governmental activities	<u>\$ 18,059,002</u>

See Notes to the Financial Statements

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - GOVERNMENTAL FUNDS
For the Year Ended August 31, 2010

Data Control Codes		General Fund	Debt Service Fund	Capital Projects Fund
Revenues				
5700	Local, intermediate, and out-of-state	\$ 22,338,522	\$ 6,673,924	\$ 225,634
5800	State program revenues	16,061,203	97,207	
5900	Federal program revenues			
5020	Total Revenues	<u>38,399,725</u>	<u>6,771,131</u>	<u>225,634</u>
Expenditures				
Current:				
0011	Instruction	22,612,100		302,954
0012	Instruction resources and media services	798,230		
0013	Curriculum and instructional staff development	44,730		
0021	Instructional leadership	722,062		
0023	School leadership	2,155,033		
0031	Guidance, counseling and evaluation services	809,313		
0032	Social work services	27,900		
0033	Health services	380,416		
0034	Student transportation	1,296,933		267,699
0035	Food services			
0036	Extracurricular activities	1,525,805		
0041	General administration	1,826,689		
0051	Facilities maintenance and operations	3,073,900		125,617
0052	Security and monitoring services	111,371		
0053	Data processing services	756,854		1,611,792
0061	Community services	5,075		2,220
Debt service:				
0071	Principal on long-term debt		2,360,000	
0072	Interest on long-term debt		5,616,894	
Capital outlay:				
0081	Capital outlay			47,625,816
Intergovernmental:				
0093	Payments related to shared services arrangements	1,091,684		
0095	Payments to Juvenile Justice Alternative Education Program	17,882		
0099	Other intergovernmental charges	155,672		
6030	Total Expenditures	<u>37,411,649</u>	<u>7,976,894</u>	<u>49,936,098</u>
1100	Excess (deficiency) of revenues over expenditures	<u>988,076</u>	<u>(1,205,763)</u>	<u>(49,710,464)</u>
Other Financing Sources (Uses)				
7911	Capital-related debt issued (regular bonds)		2,565,000	
7915	Transfers in	30,919		
7916	Premium on issuance of bonds		45,342	
8911	Transfers out			
8949	Payment to Bond Refunding Escrow Agent		(2,593,827)	
7080	Total other financing sources (uses)	<u>30,919</u>	<u>16,515</u>	
1200	Net change in fund balances	1,018,995	(1,189,248)	(49,710,464)
0100	Fund Balance - September 1 (Beginning)	7,355,181	3,577,044	70,568,986
1300	Prior Period Adjustment	289,787		
3000	Fund Balance - August 31 (Ending)	<u>\$ 8,663,963</u>	<u>\$ 2,387,796</u>	<u>\$ 20,858,522</u>

See Notes to the Financial Statements

Exhibit C-3

Other Governmental Funds	Total Governmental Funds
\$ 2,650,933	\$ 31,889,013
213,640	16,372,050
3,714,931	3,714,931
<u>6,579,504</u>	<u>51,975,994</u>
3,554,491	26,469,545
	798,230
28,358	73,088
112,921	834,983
67,502	2,222,535
74,271	883,584
41,743	69,643
95,969	476,385
35,014	1,599,646
2,106,459	2,106,459
6,017	1,531,822
130,757	1,957,446
2,723	3,202,240
	111,371
65,091	2,433,737
145,819	153,114
	2,360,000
	5,616,894
	47,625,816
	1,091,684
	17,882
	<u>155,672</u>
<u>6,467,135</u>	<u>101,791,776</u>
<u>112,369</u>	<u>(49,815,782)</u>
	2,565,000
	30,919
	45,342
(30,919)	(30,919)
	<u>(2,593,827)</u>
<u>(30,919)</u>	<u>16,515</u>
81,450	(49,799,267)
1,179,546	82,680,757
<u>(39,475)</u>	<u>250,312</u>
<u>\$ 1,221,521</u>	<u>\$ 33,131,802</u>

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FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended August 31, 2010

Exhibit C-4

Data
Control
Codes

Net change in fund balances - total governmental funds (from C-3)	\$ (49,799,267)
Amounts reported for governmental activities in the statement of activities (B-1) are different because:	
1 Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	45,760,433
3 Property tax revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(80,007)
4 Repayment of bond principal, including payment to bond refunding agent, is an expenditure in the governmental fund, but the repayment reduces long-term liabilities in the statement of net assets.	2,360,000
5 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.	28,827
6 Premium received on the sale of bonds	(45,342)
7 Bond issuance costs paid during the current year will be amortized over the life of the bonds.	56,081
Some expenses reported in the statement of activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds:	
8 Decrease in interest payable not recognized in fund statements	
9 Changes in bond issuance premiums	147,185
10 Bond issuance costs	(84,105)
11 Amortization of deferred loss on defeasance of bonds	(50,398)
12 Accreted interest on capital appreciation bonds and amortization of bond issuance costs	(7,262)
13 (Increase) decrease in long-term portion of accrued compensated absences payable	(46,366)
14 Internal service funds are used by management to charge the costs of certain activities, such as insurance and telecommunications, to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities (see D-3).	110,920
Change in net assets of governmental activities (see B-1)	<u>\$ (1,649,301)</u>

See Notes to the Financial Statements

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT*Exhibit D-1***STATEMENT OF NET ASSETS****PROPRIETARY FUNDS***August 31, 2010*

<u>Data Control Codes</u>		<u>Governmental Activities - Internal Service Fund</u>
	Assets	
	Current Assets:	
1110-75	Cash and cash equivalents	\$ 1,289,201
	Total Current Assets	<u>1,289,201</u>
1000	Total Assets	<u>1,289,201</u>
	Liabilities	
	Current Liabilities:	
2110	Accounts payable	18,608
	Total Current Liabilities	<u>18,608</u>
	Non-current Liabilities:	
2590	Claims and judgments	137,503
	Total Non-current Liabilities	<u>137,503</u>
2000	Total Liabilities	<u>156,111</u>
	Net Assets	
3900	Unrestricted net assets	1,133,090
3000	Total Net Assets	<u>\$ 1,133,090</u>

See Notes to the Financial Statements.

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
For the Year Ended August 31, 2010

Exhibit D-2

Data Control Codes		Governmental Activities - Internal Service Fund
	Operating Revenues	
5754	Charges for services	\$ 166,717
5020	Total Operating Revenues	<u>166,717</u>
	Operating Expenses	
6400	Claims expense and other operating expenses	<u>58,125</u>
6030	Total Operating Expenses	<u>58,125</u>
1200	Operating Income	<u>108,592</u>
	Non-Operating Revenues (Expenses)	
7955	Investment earnings	<u>2,328</u>
	Total Nonoperating Revenues (Expenses)	<u>2,328</u>
	Income before Transfers	<u>110,920</u>
1200	Change in Net Assets	110,920
0100	Net Assets - September 1 (Beginning)	<u>1,022,170</u>
3300	Net Assets - August 31 (Ending)	<u><u>\$ 1,133,090</u></u>

See Notes to the Financial Statements.

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT*Exhibit D-3***COMBINING STATEMENT OF CASH FLOWS****PROPRIETARY FUNDS***For the Year Ended August 31, 2010*

	Non-major Internal Service Fund
Cash Flows from Operating Activities:	
Cash receipts from quasi-external operating activities with other funds	\$ 166,717
Cash payments for insurance claims	(223,842)
Net Cash Provided by (Used for) Operating Activities	<u>(57,125)</u>
Cash Flows from Investing Activities:	
Interest on investments	2,328
Net Cash Provided by Investing Activities	<u>2,328</u>
Net Increase in Cash and Cash Equivalents	(54,797)
Cash and Cash Equivalents at Beginning of Year	<u>1,343,998</u>
Cash and Cash Equivalents at End of Year	<u>\$ 1,289,201</u>
Reconciliation to Balance Sheet	
Cash and Cash Equivalents Per Cash Flow	\$ 1,289,201
Cash and Cash Equivalents per Balance Sheet	<u>\$ 1,289,201</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating Income (Loss)	\$ 108,592
Change in Assets and Liabilities:	
Increase (decrease) in Accounts Payable	(19,753)
Increase (decrease) in Accrued Expenses	<u>(145,964)</u>
Net Cash Provided by (Used for) Operating Activities	<u>\$ (57,125)</u>

See Notes to the Financial Statements.

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
August 31, 2010

Exhibit E-1

<u>Data Control Codes</u>		<u>Private Purpose Trust Funds</u>	<u>Agency Fund</u>
	Assets		
1110	Cash and cash equivalents	\$ 14,528	\$ 564,948
	Receivables:		
1260	Due from other Funds		388,685
1290	Other receivables		20,000
	Total Assets	<u>14,528</u>	<u>\$ 973,633</u>
	Liabilities		
2110	Accounts payable		17,738
2150	Payroll deductions and withholdings		62,550
2170	Due to other funds		20,000
2190	Due to student groups		873,345
2000	Total Liabilities		<u>\$ 973,633</u>
	Net Assets		
3800	Restricted	<u>\$ 14,528</u>	

See Notes to the Financial Statements.

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT

Exhibit E-2

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

For the Year Ended August 31, 2010

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

See Notes to the Financial Statements.

Note 1 - Summary of Significant Accounting Policies

Reporting Entity

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

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

Government-wide and Fund Financial Statements

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

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

The fiduciary fund financial statements reflect the District's agency fund, reporting only assets and liabilities, and do not have a measurement focus.

Note 1 - Summary of Significant Accounting Policies (continued)

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

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

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

The District reports the following major governmental funds:

- The *general fund* is the District's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The *debt service fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.
- The *capital projects fund* is used to account for proceeds from sales of bonds and other revenues to be used for authorized construction and technology projects/enhancements.

Additionally, the District reports the following fund types:

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

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

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

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

Note 1 - Summary of Significant Accounting Policies (continued)

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

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

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

Deposits and Investments

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

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

Investments for the District are reported at fair value based on quoted market prices at August 31, 2010. The investment pools operate in accordance with appropriate state laws and regulations. The reported value of the pools is the same as the fair value of the pool shares.

Receivables and Payables

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

Property tax receivables include unpaid property taxes at year-end along with penalties and interest assessed on these unpaid taxes and are, shown net of an allowance for uncollectibles. The property tax receivable allowance is equal to 12 percent of outstanding property taxes and related penalties and interest at August 31, 2010. Revenues from property taxes are recognized when levied to the extent they are available. The District considers property taxes as available when collected. However, not all outstanding property taxes are expected to be collected within one year of the date of the financial statements. Property values are determined by the Galveston Central Appraisal District as of January 1 of each year. Prior to September 1 of each year, the District must adopt its annual budget and as soon thereafter as practicable, shall adopt a tax rate thus creating the tax levy. Property taxes for the current calendar year are levied on approximately October 1 of each year and are payable by January 31 of the following year. Property tax receivables are recorded as of the date levied. Unpaid taxes become delinquent on February 1 and a tax lien on real property is created as of July 1 of each year.

Note 1 - Summary of Significant Accounting Policies (continued)

Inventories and Prepaid Items

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

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

Capital Assets

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

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

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

<u>Assets</u>	<u>In Years</u>
Buildings and improvements	12 - 30
Furniture and equipment	5 - 25

Compensated Absences

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

Note 1 - Summary of Significant Accounting Policies (continued)

Compensated Absences (continued)

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

Long-term Obligations

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

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

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

Fund Equity

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

Data Control Codes

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

Note 1 - Summary of Significant Accounting Policies (continued)

Use of Estimates

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

Note 2 - Deposits and Investments

Cash Deposits

The District's funds are required to be deposited and invested under the terms of a depository contract pursuant to the Texas School Depository Act. The depository bank pledges securities which comply with state law and these securities are held for safekeeping and trust with the District's and the depository banks' agent bank. The pledged securities are approved by the Texas Education Agency and shall be in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance.

Investments

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

For fiscal year 2010, 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.

Note 2 - Deposits and Investments (continued)

Investments (continued)

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

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

	Fair Market Value	Weighted Average Maturity (In days)
Governmental Activities:		
Cash and deposits	\$	N/A
Certificates of deposit	3,015,585	N/A
Investments		
Local Government Investment Pools:		
Lone Star	4,101,976	52
MBIA Texas Class	22,668,214	30
Texpool	64,888	29
TexStar	1,003,206	49
	<u>27,838,284</u>	32
Investment Securities:		
ICT Money Market Mutual Fund	1,615,810	1
Federal Farm Credit Bank	1,688,681	174
Federal Home Loan Bank	3,791,506	118
Federal Home Loan Mortgage Corp.	3,090,930	230
	<u>10,186,927</u>	170
Total Investments	<u>41,040,796</u>	63
Total Governmental Activities	<u>41,040,796</u>	
Fiduciary Funds:		
Cash and deposits	579,476	
Total Fiduciary Funds	<u>579,476</u>	
Total	<u>\$ 41,620,272</u>	

Note 2 - Deposits and Investments (continued)

Interest Rate Risk

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

Credit Risk

State law and the District's investment policy limits investments in all categories to top ratings issued by nationally recognized statistical rating organizations. As of August 31, 2010, the District's investments were rated as follows:

Investment	Rating	Rating Agency
Lone Star	AAA	Standard and Poor's
MBIA	AAAm	Standard and Poor's
Texpool	AAAm	Standard and Poor's
TexStar	AAAm	Standard and Poor's
ICT Money Market Mutual Fund	AAAm	Standard and Poor's
Federal Farm Credit Bank	AAA	Standard and Poor's
Federal Home Loan Bank	AAA	Standard and Poor's
Federal Home Loan Mortgage Corp.	AAA	Standard and Poor's
Federal National Mortgage Assoc.	AAA	Standard and Poor's

Concentration of Credit Risk

The District's investment policy requires the investment portfolio to be diversified in terms of investment instruments, maturity scheduling, and financial institutions in order to reduce the risk of loss resulting from over-concentration of assets in a specific class of investments, specific maturity, or specific issuer. Investments with concentrations of over five percent of the total portfolio at August 31, 2010 consisted of the following:

Investment Type	Fair Market Value	Percentage of Portfolio
MBIA Texas Class	\$ 22,668,214	24.52%

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, 2010, is included in investment earnings as follows:

Investment earnings	\$ 333,185
Net increase (decrease) in investment values	(68,819)
Total Investment earnings	\$ 264,366

Note 3 - Receivables

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

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Nonmajor and Fiduciary Funds</u>	<u>Total</u>
Property taxes	\$ 562,560	\$ 120,804	\$	\$	\$ 683,364
Due from other governments	92,359			446,578	538,937
Interest			124,074		124,074
Other	267,439			6,290	273,729
Gross receivables	922,358	120,804	124,074	452,868	1,620,104
Less allowance for doubtful accounts	(89,331)	(11,586)			(100,917)
Net total receivables	<u>\$ 833,027</u>	<u>\$ 109,218</u>	<u>\$ 124,074</u>	<u>\$ 452,868</u>	<u>\$ 1,519,187</u>

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

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
Delinquent property taxes receivable (General Fund)	\$ 435,519	\$	\$ 435,519
Delinquent property taxes receivable (Debt Service Fund)	97,337		97,337
Advanced collection of tuition and fees		181,040	181,040
	<u>\$ 532,856</u>	<u>\$ 181,040</u>	<u>\$ 713,896</u>

Note 4 - Capital Assets

Capital asset activity for the year ended August 31, 2010, was as follows:

	<u>Balance August 31, 2009</u>	<u>Additions</u>	<u>(Retirements and Transfers)</u>	<u>Balance August 31, 2010</u>
Capital assets, not being depreciated				
Land	\$ 1,990,385	\$	\$	\$ 1,990,385
Construction in progress	28,938,134	46,826,992	(1,137,198)	74,627,928
Total Capital assets, not being depreciated	<u>30,928,519</u>	<u>46,826,992</u>	<u>(1,137,198)</u>	<u>76,618,313</u>
Capital assets, being depreciated				
Buildings and improvements	50,489,723	1,988,515	(89,605)	52,388,633
Furniture and equipment	4,727,153	290,915		5,018,068
Total Capital assets, being depreciated	<u>55,216,876</u>	<u>2,279,430</u>	<u>(89,605)</u>	<u>57,406,701</u>
Less accumulated depreciation for:				
Buildings and improvements	(25,178,279)	(1,870,920)	89,605	(26,959,594)
Furniture and Equipment	(3,660,288)	(337,871)		(3,998,159)
Total Accumulated depreciation	<u>(28,838,567)</u>	<u>(2,208,791)</u>	<u>89,605</u>	<u>(30,957,753)</u>
Governmental Capital Assets	<u>\$ 57,306,828</u>	<u>\$ 46,897,631</u>	<u>\$ (1,137,198)</u>	<u>\$ 103,067,261</u>

Note 4 - Capital Assets (continued)

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

Function	Depreciation Expense
Instruction	\$ 1,305,662
Instructional resources and media services	46,091
Curriculum and staff development	2,583
Instructional leadership	41,693
School leadership	124,436
Guidance, counseling and evaluation services	46,731
Social work services	1,611
Health services	21,966
Student transportation	74,888
Food Services	121,631
Extracurricular activities	88,103
General administration	105,477
Plant maintenance and operations	177,493
Security and monitoring services	6,431
Data processing services	43,702
Community services	293
	<u>\$ 2,208,791</u>

Construction Commitments

Project	Approved Construction Budget	Construction in Progress	Remaining Commitment
Baseball/Sofball Construction	\$ 2,052,916	\$ 282,373	\$ 1,770,543
Cline Elementary Renovations	3,902,901	3,157,401	745,500
Early Child Care	7,170,392	104,309	7,066,083
High School Renovations	25,729,267	23,614,867	2,114,400
Junior High Construction	46,182,911	39,569,990	6,612,921
Natatorium Construction	7,259,560	6,188,873	1,070,687
Stadium Renovations	3,037,882	1,710,115	1,327,767
	<u>\$ 95,335,829</u>	<u>\$ 74,627,928</u>	<u>\$ 20,707,901</u>

Note 5 - Interfund Receivables, Payables, and Transfers

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

During the fiscal year, \$30,919 was transferred from the high school allotment special revenue fund to the general fund in order to close the special revenue fund due to a change in the reporting requirements.

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

The composition of interfund balances as of August 31, 2010, is as follows:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>	<u>Net</u>
Governmental Funds			
General Fund	\$ 467,317	\$ 506,406	\$ (39,089)
Non-major Governmental Funds	119,026	448,622	(329,596)
Total Governmental Funds	<u>586,343</u>	<u>955,028</u>	<u>(368,685)</u>
Fiduciary Funds			
Agency Fund	388,685	20,000	368,685
Total Fiduciary Funds	<u>388,685</u>	<u>20,000</u>	<u>368,685</u>
Total	<u>\$ 975,028</u>	<u>\$ 975,028</u>	<u>\$</u>

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

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

The District's sick-leave benefits provide for up to 100 days of local sick leave that may be accrued while employed by the District. Compensation is based on the current substitute's daily rate. The rate of accrual depends on the position and length of work-day.

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

Balance, September 1, 2009	\$ 947,544
Additions: New entrants and salary increments	111,537
Deductions: Payments to participants	<u>(65,171)</u>
Balance, August 31, 2010	<u>\$ 993,910</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, 2010, the legal debt limit was \$202,485,377 and the legal debt margin was \$85,326,889.

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, 2010

Note 7 - Long-Term Liabilities (continued)

General Obligation Bonds

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

Bonds payable for the year ended August 31, 2010 were as follows:

<u>Issue</u>	<u>Original issuance amount</u>	<u>Interest Rate (%)</u>	<u>Maturity Date</u>	<u>Debt Outstanding</u>
Unlimited Tax Schoolhouse Bonds, Series 2006	\$ 5,590,554	3.78%	2/15/2017	\$ 5,499,978
Unlimited Tax Refunding Bonds, Series 2006	2,725,000	3.60%	2/15/2013	1,300,000
Unlimited Tax Schoolhouse Bonds, Series 2008	96,750,000	4.00% to 5.00%	2/15/2037	96,750,000
Unlimited Tax Refunding Bonds, Series 2009	10,000,000	2.00% to 3.00%	2/15/2018	10,000,000
Unlimited Tax Refunding Bonds, Series 2010	2,565,000	2.00%	2/15/2012	2,565,000
				<u>\$ 116,114,978</u>

Debt service requirements to maturity are as follows:

<u>Year Ending August 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2011	\$ 2,525,000	\$ 5,334,051	\$ 7,859,051
2012	2,570,000	5,275,261	7,845,261
2013	2,459,978	5,208,841	7,668,819
2014	2,680,000	5,129,821	7,809,821
2015	2,770,000	5,040,392	7,810,392
2016 - 2020	15,015,000	23,609,241	38,624,241
2021 - 2025	18,715,000	19,653,190	38,368,190
2026 - 2030	24,030,000	14,338,990	38,368,990
2031 - 2035	30,740,000	7,628,238	38,368,238
2036 - 2040	14,610,000	739,500	15,349,500
	<u>\$ 116,114,978</u>	<u>\$ 91,957,525</u>	<u>\$ 208,072,503</u>

Accreted Interest on Capital Appreciation Bonds

With capital appreciation bonds, the interest is paid upon maturity of the bonds. In order to properly reflect the amounts payable on these bonds, the annual interest is added to the long-term liabilities as accretion of interest on capital appreciation bonds. The interest on these obligations will be paid upon maturity in the fiscal year 2013. The values associated with the bonds are reflected in the table below:

<u>Series</u>	<u>Accreted Value</u>	<u>Principal</u>	<u>Accreted Interest</u>	<u>Maturity Value</u>	<u>Maturity Dates</u>
2006	\$ 180,480	\$ 59,978	\$ 120,502	\$ 200,000	2013
	<u>\$ 180,480</u>	<u>\$ 59,978</u>	<u>\$ 120,502</u>	<u>\$ 200,000</u>	

Note 7 - Long-Term Liabilities (continued)

Current Refunding

The District issued \$2,565,000 of unlimited tax refunding bonds for a current refunding of \$2,575,000 of unlimited tax schoolhouse bonds. The refunding was undertaken to reduce total future debt service payments. The reacquisition price exceeded the net carrying amount of the old debt by \$39,645. This amount is being netted against the new debt and amortized over the life of the new debt's life.

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, 2010, \$3,425,000 of previously refunded debt outstanding was considered defeased.

Changes in Long-Term Liabilities

The following is a summary of changes in the District's total governmental long-term liabilities for the year ended August 31, 2010:

	<u>Balance</u> <u>August 31, 2009</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>August 31, 2010</u>	<u>Due Within</u> <u>One Year</u>
General obligation bonds	\$ 118,484,978	\$ 2,565,000	\$ (4,935,000)	\$ 116,114,978	\$ 2,525,000
Less deferred amounts:					
For issuance premiums/discounts	3,490,730		(100,630)	3,390,100	
Gain or loss on refunding bonds	(90,050)		10,754	(79,296)	
Accreted interest on premium compound interest bonds	113,240	7,262		120,502	
Accrued compensated absences	947,544	111,537	(65,171)	993,910	
	<u>\$ 122,946,442</u>	<u>\$ 2,683,799</u>	<u>\$ (5,090,047)</u>	<u>\$ 120,540,194</u>	<u>\$ 2,525,000</u>

Note 8 - Fund Balance

Designated fund balance at August 31, 2010 consists of the following:

Retirement / Sick Leave Benefits	\$ 993,910
Contingencies	1,200,000
Catastrophe Deductible Coverage	1,500,000
	<u>\$ 3,693,910</u>

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 Fund</u>	<u>Capital Projects Fund</u>	<u>Nonmajor and Fiduciary Funds</u>	<u>Total</u>
Property Taxes	\$ 21,264,974	\$ 6,608,683	\$	\$	\$ 27,873,657
Investment Income	28,987	5,730	225,634	4,015	264,366
Co-curricular student activities	226,027				226,027
Food Sales				1,940,204	1,940,204
Other	818,534	59,511		706,714	1,584,759
	<u>\$ 22,338,522</u>	<u>\$ 6,673,924</u>	<u>\$ 225,634</u>	<u>\$ 2,650,933</u>	<u>\$ 31,889,013</u>

Note 10 - Operating Leases

Commitments under operating lease (non-capitalized) agreements for facilities and equipment are subject to fiscal funding clauses. As such, the agreements are cancelable and the District is therefore not obligated for minimum future rental payments as of August 31, 2010. The imputed interest on the leases is not readily determinable.

Rental expenditures during the year amounted to \$306,692.

Note 11 - Pension Information

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

Funding Policy: State law provides for a member contribution rate of 6.4% for fiscal years 2010, 2009, and 2008, and a state contribution rate of 6.64% starting January 1, 2010, 6.58% prior to January for fiscal year 2010 and for fiscal years 2009 and 2008. In certain instances, the reporting district is required to make all or a portion of the state's contribution for fiscal year 2010, 2009 and 2008. Contribution requirements are not actuarially determined but are legally established each biennium pursuant to the following state funding policy: (1) The state constitution requires the legislature to establish a member contribution rate of not less than 6.0 percent of the member's annual compensation and a state contribution rate of not less than 6.0 percent and not more than 10.0 percent of the aggregate annual compensation of all members of the system during that fiscal year; (2) A state statute prohibits benefit improvements or contribution reductions if, as a result of the particular action, the time required to amortize TRS's unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action.

Note 11 - Pension Information (continued)

Contributions: Staff members of the District are required to pay 6.4% of their eligible gross earnings to the TRS pension plan. The State of Texas contributes 6.64% starting January 1, 2010 and 6.58% prior to January for fiscal year 2010 (6.58% for fiscal years 2009 and 2008) of all employees' eligible gross earnings, except for those staff members subject to statutory minimum requirements and those staff members being paid from and participating in federally funded programs. State statutes establish these rates. The statutory minimum requirements are based on the State of Texas teacher schedule adjusted based on local tax rates. For staff members funded by federal programs, the federal programs are required to contribute 6.58% (6.00% for fiscal years 2009 and 2008). Contributions made by the State, District, and staff members for the years ended August 31, 2010, 2009, and 2008 are as follows:

<u>For the Year Ended August 31</u>	<u>State TRS Contributions Made on Behalf of the District</u>	<u>District Required Contributions to TRS</u>	<u>Staff Members' Contributions to TRS</u>	<u>Covered Payroll</u>
2010	\$ 1,546,336	\$ 433,364	\$ 1,914,267	\$ 29,910,615
2009	1,620,412	309,017	1,847,912	28,874,000
2008	1,530,935	277,834	1,785,103	27,892,461

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

Note 12 - Retiree Health Plan

Plan Description: The Friendswood Independent School District contributes to the Texas Public School Retired Employees Group Insurance Program (TRS-Care), a cost-sharing multiple-employer defined benefit postemployment health care plan administered by the Teacher Retirement System of Texas (TRS). TRS-Care Retired Plan provides health care coverage for certain persons (and their dependents) who retired under TRS. The statutory authority for the program is Texas Insurance Code, Chapter 1575. Section 1575 grants the TRS Board of Trustees the authority to establish and amend basic and optional group insurance coverage for participants. TRS issues a publicly available financial report that includes financial statements and required supplementary information for TRS-Care. That report may be obtained by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701, or by calling the TRS Communications Department at 1-800-223-8778, or by downloading the report from the TRS Internet website, www.trs.state.tx.us, under the TRS Publications heading.

Note 12 - Retiree Health Plan (continued)

Funding Policy: Contribution requirements are not actuarially determined but are legally established each biennium by the Texas legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. The State of Texas and active public school employee contribution rates were 1.0% and .65% of public school payroll, respectively, with school districts contributing a percentage of payroll set at .55% for fiscal years 2010, 2009, and 2008. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than .25% or greater than .75% of the salary of each active employee of the public school. For staff members funded by federal programs, the federal programs are required to contribute 1.0%. Contributions made by the State, District, and staff members for the years ended August 31, 2010, 2009, and 2008 are as follows:

<u>For the Year Ended August 31</u>	<u>State TRS Care Contributions Made on Behalf of the District</u>	<u>District Required Contributions to TRS Care</u>	<u>Staff Members' Contributions to TRS Care</u>	<u>Covered Payroll</u>
2010	\$ 288,239	\$ 175,373	\$ 194,419	\$ 29,910,615
2009	242,130	158,804	187,681	28,874,000
2008	232,665	153,412	181,301	27,892,461

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

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. Under Medicare Part D, TRS-Care receives retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. For the years ended August 31, 2010, 2009, and 2008, the subsidy payments received by TRS-Care on-behalf of the District were \$74,646, \$65,616, and \$63,702, respectively. These payments are recorded as equal revenues and expenditures in the governmental funds financial statements of the District.

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, 2010 was as follows:

Contributions to pension plan	\$ 1,546,336
Insurance contributions (TRS Care)	288,239
Insurance contributions (Medicare Part D)	74,646
	<u>\$ 1,909,221</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

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

Workers' Compensation

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

Premiums are paid into the general fund by the National School Breakfast and Lunch Program special revenue fund and are available to pay claims, claim reserves, and administrative costs of the program. These interfund premiums are used to reduce the amount of claims expenditures reported in the general fund.

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

Accordingly, claims are reevaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amount of pay-outs), and other economic and social factors. The estimate of the claims liability also includes amounts for incremental claim adjustment expenses related to specific claims and other claim adjustment expenses regardless of whether allocated to specific claims. Estimated recoveries, for example from stop-loss or subrogation, are another component of the claims liability estimate. An excess coverage insurance policy covers individual claims in excess of \$300,000 up to the statutory limits for any given claim. There were no significant reductions in insurance coverage from the prior year. Settlements have not exceeded coverage's for each of the past three fiscal years.

Note 14 - Risk Management (continued)

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>
2009	\$ 324,900	\$ 129,288	\$ 170,721	\$ 283,467
2010	283,467	(69,231)	58,125	156,111

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 8.4 percent of the activity of the shared services arrangement is attributable to the District's participation, the District does not account for revenues or expenditures in this program and does not disclose them in these financial statements. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, Dickinson ISD, nor does the District have a net equity interest in the fiscal agent. The fiscal agent is neither accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to Friendswood ISD. The fiscal agent manager is responsible for all financial activities of the shared services arrangement. Presented below are the revenues and expenditures attributable to the District's participation.

Revenues:

Local revenue	<u><u>\$ 16,786</u></u>
---------------	-------------------------

Expenditures:

Payroll costs	\$ 15,322
Contract services	341
Supplies and materials	1,038
Other operating costs	<u>85</u>

Total expenditures	<u><u>\$ 16,786</u></u>
---------------------------	-------------------------

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

Revenues:

Local revenue	<u><u>\$ 33,489</u></u>
---------------	-------------------------

Expenditures:

Payroll costs	\$ 26,624
Contract services	4,920
Supplies and materials	1,267
Other operating costs	<u>678</u>

Total expenditures	<u><u>\$ 33,489</u></u>
---------------------------	-------------------------

Note 15 - Shared Service Arrangements / Joint Ventures (continued)

The District participates in the Energy for Schools shared services arrangement. Energy for Schools is a state electricity procurement cooperative with more than 140 member districts across the state. Member Districts are charged for their electric consumption at contracted rates. Although 1.14 percent of the shared services arrangement is attributable to the District's participation, the District does not account for revenues or expenditures in this program and does not disclose them in the financial statements. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, Deer Park ISD, nor does the District have a net equity interest in the fiscal agent. Revenues attributable to the District's participation were \$1,058,195. Expenditures in the same amount were attributable to contract services for energy costs.

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.

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, 2010.

Note 18 - Other Post-Employment Benefits

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

Note 19 - Prior Period Adjustment

The District, during the fiscal year ended August 31, 2010, determined that fund balance in the General fund needed to be adjusted to properly account for compensated absences. In addition, fund balance in the Special Revenue funds needed to be adjusted to correct a prior year overstatement of state disaster income. The restatement of fund balance is as follows:

	General Fund
Beginning Fund Balance - as Originally Presented	\$ 7,355,181
Restatement Due to Reporting of Compensated Absences at the Fund Level Incorrectly	<u>289,787</u>
Beginning Fund Balance - as Restated	<u><u>\$ 7,644,968</u></u>
	Special Revenue Fund
Beginning Fund Balance - as Originally Presented	\$ 70,394
Restatement Due to Overstatement of Revenues In Prior Year	<u>(39,475)</u>
Beginning Fund Balance - as Restated	<u><u>\$ 30,919</u></u>

Required Supplementary Information

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FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Year Ended August 31, 2010

Exhibit G-1

Data Control Codes	Budgeted Amounts		Actual Amounts, Budgetary Basis	Variance with Final Budget - Positive (Negative)	
	Original	Final			
Revenues					
5700	Local revenues	\$ 21,825,494	\$ 21,844,744	\$ 22,338,522	\$ 493,778
5800	State program revenues	17,652,286	17,652,286	16,061,203	(1,591,083)
5020	Total Revenues	<u>39,477,780</u>	<u>39,497,030</u>	<u>38,399,725</u>	<u>(1,097,305)</u>
Expenditures					
Current:					
0011	Instruction	24,131,762	23,824,183	22,612,100	1,212,083
0012	Instruction resources and media services	906,000	906,829	798,230	108,599
0013	Curriculum and instructional staff development	69,215	61,869	44,730	17,139
0021	Instructional leadership	821,285	819,883	722,062	97,821
0023	School leadership	2,148,683	2,189,836	2,155,033	34,803
0031	Guidance, counseling and evaluation services	904,055	892,787	809,313	83,474
0032	Social work services	57,109	57,115	27,900	29,215
0033	Health services	386,183	394,005	380,416	13,589
0034	Student transportation	1,377,954	1,372,842	1,296,933	75,909
0036	Extracurricular activities	1,221,961	1,542,666	1,525,805	16,861
0041	General administration	1,881,054	1,878,198	1,826,689	51,509
0051	Facilities maintenance and operations	3,115,662	3,128,637	3,073,900	54,737
0052	Security and monitoring services	113,842	113,842	111,371	2,471
0053	Data processing services	774,475	784,287	756,854	27,433
0061	Community services	1,800	11,800	5,075	6,725
Capital outlay:					
0081	Capital outlay		10,000		10,000
Intergovernmental:					
0093	Payments related to shared services arrangements	1,289,500	1,189,500	1,091,684	97,816
0095	Payments to Juvenile Justice Alternative Education Programs	41,800	41,800	17,882	23,918
0099	Other intergovernmental charges	235,440	260,440	155,672	104,768
6030	Total Expenditures	<u>39,477,780</u>	<u>39,480,519</u>	<u>37,411,649</u>	<u>2,068,870</u>
1100	Excess (deficiency) of revenues over expenditures		16,511	988,076	971,565
Other Financing Sources (Uses)					
7915	Transfers in			30,919	30,919
7080	Total other financing sources and uses			<u>30,919</u>	<u>30,919</u>
1200	Net change in fund balances		16,511	1,018,995	1,002,484
0100	Fund balances - beginning	7,355,181	7,355,181	7,355,181	
1300	Prior Period Adjustment			289,787	289,787
3000	Fund balances - ending	<u>\$ 7,355,181</u>	<u>\$ 7,371,692</u>	<u>\$ 8,663,963</u>	<u>\$ 1,292,271</u>

A. Budgets and Budgetary Accounting

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

Expenditures may not legally exceed budgeted appropriations at the function or activity level. Expenditure requests which would require an increase in total budgeted appropriations must be approved by the Trustees through formal budget amendment. State law prohibits trustees from making budget appropriations in excess of funds available and estimated revenues. State law also prohibits amendment of the budget after fiscal year end. Supplemental appropriations were made to the General Fund during the fiscal year ended August 31, 2010.

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, 2009. 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 NON-MAJOR GOVERNMENTAL FUNDS

August 31, 2010

Data Control Codes	204 Vocational Ed - Tech Prep	211 ESEA Title I, Part A	224 IDEA-B Formula	
Assets				
1110	Cash and temporary investments	\$	\$	\$
Receivables:				
1240	Receivables from other governments	4,531	20,063	69,792
1260	Due from other funds			
1290	Other receivables			
1000	Total Assets	\$ 4,531	\$ 20,063	\$ 69,792
 Liabilities and Fund Balances				
Liabilities:				
Current Liabilities:				
2110	Accounts payable	\$	\$	\$ 706
2160	Accrued wages payable			
2170	Due to other funds	4,531	20,063	69,086
2300	Deferred revenues			
2000	Total Liabilities	4,531	20,063	69,792
 Fund Balances:				
Reserved for:				
3450	Food service operations			
Unreserved, Undesignated Reported in:				
3610	Special revenue funds			
3000	Total Fund Balances			
4000	Total Liabilities and Fund Balances	\$ 4,531	\$ 20,063	\$ 69,792

225	240	243	244	255
IDEA-B Preschool Grant	Child Nutrition	Vocational Ed - Tech Prep	Vocational Ed -Basic	Title II, Part A
\$	\$ 196,041	\$	\$	\$
	2,370	4,890	3,221	4,390
	119,026			
	6,290			
<u>\$</u>	<u>\$ 323,727</u>	<u>\$ 4,890</u>	<u>\$ 3,221</u>	<u>\$ 4,390</u>
\$	\$ 42,939	\$	\$ 224	\$
	17,087			
		4,890	2,997	4,390
<u></u>	<u>60,026</u>	<u>4,890</u>	<u>3,221</u>	<u>4,390</u>
	263,701			
<u></u>	<u>263,701</u>	<u></u>	<u></u>	<u></u>
<u>\$</u>	<u>\$ 323,727</u>	<u>\$ 4,890</u>	<u>\$ 3,221</u>	<u>\$ 4,390</u>

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT

COMBINING BALANCE SHEET

ALL NON-MAJOR GOVERNMENTAL FUNDS

August 31, 2010

Data Control Codes	263 Title III	266 Title XIV, State Fiscal Stabilization Fund	281 REMS - Readiness & Emergency Management for Schools	
Assets				
1110	Cash and temporary investments	\$	\$	\$
Receivables:				
1240	Receivables from other governments	2,405	256,621	8,627
1260	Due from other funds			
1290	Other receivables			
1000	Total Assets	\$ 2,405	\$ 256,621	\$ 8,627
 Liabilities and Fund Balances				
Liabilities:				
Current Liabilities:				
2110	Accounts payable	\$	\$	\$
2160	Accrued wages payable			
2170	Due to other funds	2,405	256,621	8,627
2300	Deferred revenues			
2000	Total Liabilities	2,405	256,621	8,627
 Fund Balances:				
Reserved for:				
3450	Food service operations			
Unreserved, Undesignated Reported in:				
3610	Special revenue funds			
3000	Total Fund Balances			
4000	Total Liabilities and Fund Balances	\$ 2,405	\$ 256,621	\$ 8,627

283	284	289	397	404
<u>IDEA Part B, Forumula - ARRA</u>	<u>IDEA Part B, Preschool - ARRA</u>	<u>Miscellaneous Federal Programs</u>	<u>Advanced Placement Incentive</u>	<u>Student Succ. Init- Acc REA</u>
\$	\$	\$ 21,605	\$ 50,218	\$
40,227	1,262	5,743		2,604
<u>\$ 40,227</u>	<u>\$ 1,262</u>	<u>\$ 27,348</u>	<u>\$ 50,218</u>	<u>\$ 2,604</u>
\$	\$	\$	\$	\$
40,227	1,262			2,604
<u>40,227</u>	<u>1,262</u>	<u></u>	<u></u>	<u>2,604</u>
		27,348	50,218	
		27,348	50,218	
<u>\$ 40,227</u>	<u>\$ 1,262</u>	<u>\$ 27,348</u>	<u>\$ 50,218</u>	<u>\$ 2,604</u>

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT

COMBINING BALANCE SHEET

ALL NON-MAJOR GOVERNMENTAL FUNDS

August 31, 2010

<u>Data Control Codes</u>	411 <u>Technology Allotment</u>	428 <u>High School Allotment</u>	429 <u>State Funded Special Revenue Fund</u>	
Assets				
1110	Cash and temporary investments	\$ 8,617	\$ 30,919	\$ 543
Receivables:				
1240	Receivables from other governments	5,257		14,573
1260	Due from other funds			
1290	Other receivables			
1000	Total Assets	<u>\$ 13,874</u>	<u>\$ 30,919</u>	<u>\$ 15,116</u>
 Liabilities and Fund Balances				
Liabilities:				
Current Liabilities:				
2110	Accounts payable	\$ 1,372	\$	\$
2160	Accrued wages payable			
2170	Due to other funds		30,919	
2300	Deferred revenues			
2000	Total Liabilities	<u>1,372</u>	<u>30,919</u>	
 Fund Balances:				
Reserved for:				
3450	Food service operations			
Unreserved, Undesignated Reported in:				
3610	Special revenue funds	<u>12,502</u>		<u>15,116</u>
3000	Total Fund Balances	<u>12,502</u>		<u>15,116</u>
4000	Total Liabilities and Fund Balances	<u>\$ 13,874</u>	<u>\$ 30,919</u>	<u>\$ 15,116</u>

Exhibit H-1
Page 3 of 3

461	480	
<u>Campus Activity</u>	<u>Education Foundation Grants</u>	<u>Total Nonmajor Governmental Funds</u>
\$ 894,890	\$ 25,094	\$ 1,227,927
		446,576
		119,026
		6,290
<u>\$ 894,890</u>	<u>\$ 25,094</u>	<u>\$ 1,799,819</u>
\$ 28,392	\$ 16,310	\$ 89,943
1,329		18,416
		448,622
21,317		21,317
<u>51,038</u>	<u>16,310</u>	<u>578,298</u>
		263,701
<u>843,852</u>	<u>8,784</u>	<u>957,820</u>
<u>843,852</u>	<u>8,784</u>	<u>1,221,521</u>
<u>\$ 894,890</u>	<u>\$ 25,094</u>	<u>\$ 1,799,819</u>

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - ALL NON-MAJOR GOVERNMENTAL FUNDS
For the Year Ended August 31, 2010

	204	211	224
Data Control Codes	Title IV, Safe & Drug Free	ESEA Title I, Part A	IDEA-B Formula
Revenues			
5700 Local, intermediate, and out-of-state	\$	\$	\$
5800 State program revenues			
5900 Federal program revenues	10,707	120,739	948,473
5020 Total Revenues	<u>10,707</u>	<u>120,739</u>	<u>948,473</u>
Expenditures			
Current:			
0011 Instruction		120,739	830,372
0013 Curriculum and instructional staff development			
0021 Instructional leadership			
0023 School leadership			
0031 Guidance, counseling and evaluation services	10,707		
0032 Social work services			
0033 Health services			83,087
0034 Student transportation			35,014
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>10,707</u>	<u>120,739</u>	<u>948,473</u>
1100 Excess (deficiency) of revenues over expenditures			
Other Financing Sources (Uses)			
8911 Transfers out			
7080 Total other financing sources and uses			
1200 Net change in fund balances			
0100 Fund balance - September 1 (beginning)			
Prior period adjustment			
Fund balance - Beginning (as restated)			
3000 Fund balance - August 31 (ending)	<u>\$</u>	<u>\$</u>	<u>\$</u>

225	226	240	243	244	255	262
IDEA-B Preschool Grant	IDEA-B Discretionary	Child Nutrition	Vocational Ed - Tech Prep	Vocational Ed -Basic	Title II, Part A	Enhancing Ed Through Tech
\$	\$	\$ 1,988,656 5,987	\$	\$	\$	\$
39,457	12,882	213,344	7,472	32,213	52,807	1,068
<u>39,457</u>	<u>12,882</u>	<u>2,207,987</u>	<u>7,472</u>	<u>32,213</u>	<u>52,807</u>	<u>1,068</u>
39,457			7,472	32,213	31,722 11,666 7,257 2,162	1,018
	12,882					
		2,106,459				
						50
<u>39,457</u>	<u>12,882</u>	<u>2,106,459</u>	<u>7,472</u>	<u>32,213</u>	<u>52,807</u>	<u>1,068</u>
		101,528				
		101,528				
		162,173				
		<u>162,173</u>				
<u>\$</u>	<u>\$</u>	<u>\$ 263,701</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - ALL NON-MAJOR GOVERNMENTAL FUNDS
For the Year Ended August 31, 2010

<u>Data Control Codes</u>	<u>263</u>	<u>266</u>	<u>281</u>
	<u>Title III</u>	<u>Title XIV, State Fiscal Stabilization Fund</u>	<u>REMS - Readiness & Emergency Management for Schools</u>
Revenues			
5700	\$	\$	\$
5800			
5900	12,866	1,689,112	47,609
5020	<u>12,866</u>	<u>1,689,112</u>	<u>47,609</u>
Expenditures			
Current:			
0011	10,286	1,329,151	
0013	2,505		
0021		56,885	47,609
0023	75	64,640	
0031		59,962	
0032		41,743	
0033			
0034			
0035			
0036		6,017	
0041		130,714	
0051			
0053			
0061			
6030	<u>12,866</u>	<u>1,689,112</u>	<u>47,609</u>
1100			
Other Financing Sources (Uses)			
8911			
7080			
1200			
0100			
3000	<u>\$</u>	<u>\$</u>	<u>\$</u>

283	284	289	397	404
<u>IDEA Part B, Forumula - ARRA</u>	<u>IDEA Part B, Preschool - ARRA</u>	<u>Miscellaneous Federal Programs</u>	<u>Advanced Placement Incentive</u>	<u>Student Succ. Init- Acc REA</u>
\$	\$	\$	\$	\$
			4,360	10,686
513,255	11,901	1,026		
<u>513,255</u>	<u>11,901</u>	<u>1,026</u>	<u>4,360</u>	<u>10,686</u>
495,343	11,901		9,938	10,686
13,144				
1,170				
625				
250				
2,723				
<u>513,255</u>	<u>11,901</u>	<u>1,026</u>	<u>9,938</u>	<u>10,686</u>
		1,026	(5,578)	
		1,026	(5,578)	
		26,322	55,796	
		<u>26,322</u>	<u>55,796</u>	
\$	\$	\$	\$	\$
		27,348	50,218	

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - ALL NON-MAJOR GOVERNMENTAL FUNDS
For the Year Ended August 31, 2010

Data Control Codes	411 Technology Allotment	428 High School Allotment	429 State Funded Special Revenue Fund
Revenues			
5700	\$	\$	\$
5800	169,476		15,028
5900			
5020	Total Revenues		15,028
Expenditures			
Current:			
0011	116,573		
0013	25		
0021			
0023			
0031			
0032			
0033			
0034			
0035			
0036			
0041			
0051			
0053	65,041		
0061			
6030	Total Expenditures		
1100	(12,163)		15,028
Other Financing Sources (Uses)			
8911		(30,919)	
7080		(30,919)	
1200	(12,163)	(30,919)	15,028
0100	24,665	70,394	88
		(39,475)	
	Fund balance - Beginning 1 (as restated)	30,919	88
3000	Fund balance - August 31 (ending)	\$ 12,502	\$ 15,116

Exhibit H-2
Page 3 of 3

461	480	
<u>Campus Activity</u>	<u>Education Foundation Grants</u>	<u>Total-Other Governmental Funds</u>
\$ 662,277	\$	\$ 2,650,933
8,103		213,640
		3,714,931
<u>670,380</u>		<u>6,579,504</u>
437,974	70,664	3,554,491
		28,358
		112,921
		67,502
3,352		74,271
		41,743
		95,969
		35,014
		2,106,459
		6,017
43		130,757
		2,723
		65,091
145,819		145,819
<u>587,188</u>	<u>70,664</u>	<u>6,467,135</u>
<u>83,192</u>	<u>(70,664)</u>	<u>112,369</u>
		<u>(30,919)</u>
		<u>(30,919)</u>
83,192	(70,664)	81,450
760,660	79,448	1,179,546
		(39,475)
<u>760,660</u>	<u>79,448</u>	<u>1,140,071</u>
<u>\$ 843,852</u>	<u>\$ 8,784</u>	<u>\$ 1,221,521</u>

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT*Exhibit H-3***COMBINING STATEMENT OF FIDUCIARY NET ASSETS***August 31, 2010*

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

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
For the Year Ended August 31, 2010

Exhibit H-4

	891	892	
	Cline Scholarship	Winston Scholarship	Total
Additions			
Gifts and contributions	\$	\$	\$
Earnings on investments			
Total additions			
Change in net assets			
Net assets beginning of year	2,232	12,296	14,528
Net assets end of year	\$ 2,232	\$ 12,296	\$ 14,528

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Required TEA Schedules

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DELINQUENT TAXES RECEIVABLE
For the Year Ended August 31, 2010

<u>Last Ten Fiscal Years</u>	<u>Tax Rates</u>		<u>Net Assessed/Appraised Value For School Tax Purposes</u>	<u>Beginning Balance 8/31/09</u>
	<u>1</u>	<u>2</u>		
	<u>Maintenance</u>	<u>Debt Service</u>		
2001 and prior	Various	Various	Various	\$ 40,935
2002	\$ 1.448000	\$ 0.137000	1,199,063,080	12,523
2003	1.480000	0.137000	1,322,337,607	12,165
2004	1.500000	0.137000	1,457,665,058	24,790
2005	1.500000	0.137000	1,529,840,326	23,517
2006	1.500000	0.137000	1,624,895,916	37,396
2007	1.370000	0.137000	1,789,587,724	40,596
2008	1.040000	0.137000	1,956,333,264	56,970
2009	1.040000	0.327000	1,974,337,088	351,969
2010	1.040000	0.327000	2,024,853,767	
1000 Totals				<u>\$ 600,861</u>

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

Exhibit J-1

20	31	32	40	50
<u>Current Year's Total Levy</u>	<u>Maintenance Total Collections</u>	<u>Debt Service Total Collections</u>	<u>Entire Year's Adjustments</u>	<u>Ending Balance 8/31/10</u>
\$	\$ 16,618	\$ 2,179	\$ (1,885)	\$ 20,253
	539	51		11,933
	963	89		11,113
	11,121	1,016		12,653
	3,828	350	(5,374)	13,965
	4,372	399	(8,423)	24,202
	6,415	642	2,971	36,510
	20,945	2,759	3,742	37,008
	194,695	61,217	2,022	98,079
<u>27,679,751</u>	<u>20,895,682</u>	<u>6,570,085</u>		<u>213,984</u>
<u>\$ 27,679,751</u>	<u>\$ 21,155,178</u>	<u>\$ 6,638,787</u>	<u>\$ (6,947)</u>	479,700
				<u>203,664</u>
				<u>\$ 683,364</u>

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES FOR COMPUTATION OF
INDIRECT COSTS FOR 2011-2012
GENERAL AND SPECIAL REVENUE FUNDS
For the Year Ended August 31, 2010

Exhibit J-2

OK

Account Number	Account Name	1 (702) School Board	2 (703) Tax Collection	3 (701) Supt's Office	4 (750) Indirect Cost	5 (720) Direct Cost	6 (other) Miscellaneous	7 Total
611X-6146	PAYROLL COSTS	\$	\$42,335	\$ 338,782	\$ 744,661	\$ 135,134	\$ 118,778	\$ 1,379,690
6149	Fringe Benefits (Unused Leave for Separating Employees in Function 41 and Related 53)							
6149	Fringe Benefits (Unused Leave for Separating Employees in all Functions except Function 41 and Related 53)							
6211	Legal Services	124,201						124,201
6212	Audit Services				81,000			81,000
6213	Tax Appraisal and Collection (Appraisal district costs only from function 99)		155,672					155,672
6214	Lobbying							
621X	Other Prof. Services	12,000			14,702	12,462	9,500	48,664
6220	Tuition and Transfer Payments							
6230	Education Service Centers							
6240	Contr. Maint. and Repair							
6250	Utilities							
6260	Rentals		17,761	1,004	2,552			21,317
6290	Miscellaneous Contr.		63,525	6,321	94,111	672	1,900	166,529
6320	Textbooks and Reading							
6330	Testing Materials							
63XX	Other Supplies Materials	230	7,373	13,799	21,541	6,209	103	49,255
6410	Travel, Subsistence, Stipends	2,485	50	7,135	8,231	4,222	1,097	23,220
6420	Ins. and Bonding Costs		450					450
6430	Election Costs							
6490	Miscellaneous Operating	2,321	561	32,051	17,960	10,212	15	63,120
6500	Debt Service							
6600	Capital Outlay							
6000	TOTAL	\$ 141,237	\$ 287,727	\$ 399,092	\$ 984,758	\$ 168,911	\$ 131,393	\$ 2,113,118

Total expenditures/expenses for General and Special Revenue Funds
 (plus Food Service Enterprise Fund if present) 9 \$ 43,878,784

Less: Deductions of Unallowable Costs

Fiscal Year	
Total Capital Outlay (6600)	10 \$ 1,879
Total Debt & Lease (6500)	11
Plant Maintenance (Function 51, 6100-6400)	12 3,071,173
Food (Function 35, 6341 and 6499)	13 272
Stipends (6413)	14 16,726
Column 4 (above) - Total Indirect Cost	984,758
Subtotal:	4,074,808
Net Allowed Direct Cost	\$ 39,803,976

Cumulative	
Total Cost of Buildings before Depreciation (1520)	15 \$ 52,388,633
Historical Cost of Buildings over 50 years old	16
Amount of Federal Money in building Cost (Net of #16)	17
Total Cost of Furniture & Equipment before Depreciation (1530&1540)	18 4,873,921
Historical Cost of Furniture & Equipment over 16 years old	19 350,000
Amount of Federal Money in Furniture & Equipment (Net of #19)	20

(8) Note A - in Function 53 expenditures are included in this report on administrative costs.
 \$155,672 in Function 99 expenditures for appraisal district costs are included in this report on administrative costs.

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
FUND BALANCE AND CASH FLOW CALCULATION SCHEDULE (UNAUDITED)
GENERAL FUND
For the Year Ended August 31, 2010

Exhibit J-3

Data Control Code	Explanation	Amount
1.	Total General Fund Balance 8-31-2010 (Exhibit C-1 object 3000 for the General Fund only)	\$ 8,663,963
2.	Total Reserved Fund Balance 8-31-2010 (from Exhibit C-1 - total of object 3400s for the General Fund only)	148,824
3.	Total Designated Fund Balance (from Exhibit C-1 - total of object 3500s for the General Fund only)	3,693,910
4.	Estimated amount needed to cover fall cash flow deficits in General Fund (net of borrowed funds and funds representing deferred revenues)	
5.	Estimate of two month's average cash disbursements during the regular school session (9-1-2009 to 5-31-2010)	6,375,000
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 Fund from Capital Projects Fund (uses of General Fund cash after bond referendum and prior to issuance of bonds).	
10.	Adjustment to meet Board Policy	
11.	General Fund Optimum Fund Balance and Cash Flow (2+3+4+5+6+7+8+9+10)	<u>10,217,734</u>
12.	Excess or Deficit Undesignated Unreserved General Fund Fund Balance (1-11)	<u>\$ (1,553,771)</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.

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

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

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE
CHILD NUTRITION PROGRAM FUND
For the Year Ended August 31, 2010

Exhibit J-4

Data Control Codes		Budget		Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negaative)
		Original	Final		
	Revenues				
5700	Local, Intermediate, and Out-of-State	\$ 1,993,063	\$ 1,993,063	\$ 1,988,656	\$ (4,407)
5800	State Program Revenues	5,801	5,801	5,987	186
5900	Federal Program Revenues	143,846	143,846	213,344	69,498
5020	Total Revenues	<u>2,142,710</u>	<u>2,142,710</u>	<u>2,207,987</u>	<u>65,277</u>
	Expenditures				
	Current:				
0035	Food Services	2,112,353	2,112,353	2,106,459	5,894
6030	Total Expenditures	<u>2,112,353</u>	<u>2,112,353</u>	<u>2,106,459</u>	<u>5,894</u>
1100	Excess (Deficiency) Revenues Over Expenditures	<u>30,357</u>	<u>30,357</u>	<u>101,528</u>	<u>71,171</u>
1200	Increase (Decrease) in Fund Balance	30,357	30,357	101,528	71,171
0100	Fund Balance - September 1 (Beginning)	<u>162,173</u>	<u>162,173</u>	<u>162,173</u>	
3000	Fund Balance - August 31 (Ending)	<u>\$ 192,530</u>	<u>\$ 192,530</u>	<u>\$ 263,701</u>	<u>\$ 71,171</u>

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT

Exhibit J-5

BUDGETARY COMPARISON SCHEDULE

DEBT SERVICE FUND

For the Year Ended August 31, 2010

Data Control Codes		Budget		Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
		Original	Final		
	Revenues				
5700	Local, Intermediate, and Out-of-State	\$ 6,602,950	\$ 6,602,950	\$ 6,673,924	\$ 70,974
5800	State Program Revenues	174,597	174,597	97,207	(77,390)
5020	Total Revenues	<u>6,777,547</u>	<u>6,777,547</u>	<u>6,771,131</u>	<u>(6,416)</u>
	Expenditures				
	Debt Service:				
0071	Principal	2,360,000	2,360,135	2,360,000	135
0072	Interest and Fiscal Agent Fees	<u>5,603,775</u>	<u>5,653,640</u>	<u>5,616,894</u>	<u>36,746</u>
6030	Total Expenditures	<u>7,963,775</u>	<u>8,013,775</u>	<u>7,976,894</u>	<u>36,881</u>
1100	Excess (Deficiency) Revenues Over Expenditures	(1,186,228)	(1,236,228)	(1,205,763)	30,465
	Other Financing Sources (Uses)				
7911	Capital related debt issued (regular bonds)			2,565,000	2,565,000
7916	Premium on issuance of bonds			45,342	45,342
8949	Payment to Bond Refunding Escrow Agent		(2,700,000)	(2,593,827)	106,173
1200	Increase (Decrease) in Fund Balance	(1,186,228)	(3,936,228)	(1,189,248)	2,746,980
0100	Fund Balance - September 1 (Beginning)	<u>3,577,044</u>	<u>3,577,044</u>	<u>3,577,044</u>	
3000	Fund Balance - August 31 (Ending)	<u>\$ 2,390,816</u>	<u>\$ (359,184)</u>	<u>\$ 2,387,796</u>	<u>\$ 2,746,980</u>

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Federal Awards Section

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

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Friendswood Independent School District (the "District") as of and for the year ended August 31, 2010, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 10, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting. The significant deficiencies identified are items #10-01 and #10-02. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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*.

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

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

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

Texas City, Texas
December 10, 2010

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

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

Compliance

We have audited Friendswood Independent School District's (the "District") compliance with the types of requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended August 31, 2010. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2010.

Internal Control over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as item #10-03. A significant deficiency in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

Closing

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



Texas City, Texas
December 10, 2010

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended August 31, 2010

I. Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	Yes, #10-01, and #10-02
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	Yes, #10-03
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
US Department of Education	
Special Education Cluster:	
IDEA - Part B - Formula	84.027A
IDEA - B Preschool	84.173
IDEA - Part B, High Cost Risk Pool	84.027
ESC - IDEA - Part B, Preschool Discretionary	84.173
IDEA - Part B, Formula - ARRA	84.391
IDEA - Part B, Preschool - ARRA	84.392
Title XIV- State Fiscal Stabilization Fund - ARRA	84.394
Dollar Threshold Considered Between Type A and Type B Federal Programs	\$300,000
Auditee qualified as low-risk auditee?	Yes

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
For the Year Ended August 31, 2010

II. Financial Statement Findings

Significant Deficiencies

Finding 10-01

Condition: We noted that amounts reported on the quarterly investment reports do not agree with general ledger balances.

Criteria: The Public Funds Investment Act requires that quarterly investment reports state the beginning and ending market and book value of each investment owned by the District.

Cause: The District's investments are in compliance with the Public Funds Investments Act and the District's Investment Policy. However, the Public Funds Investment Act requires that quarterly investment reports state the beginning and ending market and book value of each investment owned by the District.

Effect: Misstatements in the financial statements could occur.

Recommendation: Amounts reported on quarterly investment reports should be reconciled to the general ledger prior to submitting the reports to the Board of Trustees.

Finding 10-02

Condition: During our tests of expenditures and accounts payable, we noted four instances where expenditures were recorded in the wrong fiscal year.

Criteria: Generally Accepted Accounting Principles require governmental funds to be accounted for on the modified accrual basis of accounting.

Cause: Lack of controls over the monitoring of accounts payable for proper cut-off resulted in the expenditures being recorded using the Cash Basis Method of Accounting instead of the Modified Accrual Basis of Accounting.

Effect: Misstatements in the Financial Statements could occur.

Recommendation: The District should establish controls to ensure that all expenditures are monitored at year-end for proper cut-off.

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
For the Year Ended August 31, 2010

III. Federal Awards Findings and Questioned Costs

Finding 10-03

Allowable Costs

Program: IDEA, Part B – Formula

CFDA: 84.027

Condition: During our tests of federal program expenditures, we noted one instance where expenditures were recorded in the wrong fiscal year in the amount of \$3,833. Although the expenditures were allowable and recorded in the correct program year, they were not recorded in the correct fiscal year. In addition, we noted two instances where amounts paid differed from contracted rates for a total difference of \$925.

Criteria: Generally Accepted Accounting Principles require governmental funds to be accounted for on the modified accrual basis of accounting. In addition, the District is obligated to comply with all contracts authorized to be paid with federal funds.

Cause: Lack of controls over the monitoring of accounts payable for proper cut-off resulted in the expenditures being recorded using the cash basis method of accounting instead of the modified accrual basis of accounting. Lack of controls over the monitoring of expenditures resulted in the wrong rates being paid on contracted services.

Effect: Misstatements in the financial statements could occur.

Recommendation: The District should establish controls to ensure that all expenditures are monitored at the end of the year for proper cut-off and that all invoices are reviewed to ensure that the correct contracted rates are being paid.

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
For the Year Ended August 31, 2010

IV. Summary Schedule of Prior Audit Findings

Finding #	Corrective Action Taken
Finding 09-01- Balance in Tax Office bank account not reflected on the Balance Sheet	Resolved - The District has established a fiduciary fund for the Tax Office and the reconciled cash balance is recorded in the general ledger.

V. Corrective Action Plan

Finding:	Corrective Action Plan	Contact Person	Estimated Completion Date
10-01 Quarterly investment report did not agree to the general ledger	FISD will ensure that all investment reports are complete by reconciling to the general ledger in a more timely manner.	(a)	(b)
10-02 Expenditures were recorded in the wrong fiscal year	Business Office will continue to educate budget managers on the correct coding procedures for fiscal year end. Also, a second Business Office signature/check point will be obtained for added controls	(a)	(b)
10-03 Rates were charged for services that were greater than the approved contracted rates	Budget Directors will be responsible for verifying contracted rates are used before invoices are signed off on and paid.	(a)	(b)

- (a) Alison Rendon, Executive Director of Finance
- (b) March 2011

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT

Exhibit K-1

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended August 31, 2010

(2A) Pass Through Entity Identifying Number	(1) Federal Grantor/ Pass-Through Grantor/ Program Title	District Fund Number	(2) Federal CFDA Number	(3) Federal Expenditures
U.S. Department of Education				
Direct Program:				
Q184E090161	Readiness and Emergency Management for Schools	281	84.184E	47,609
Total direct programs				<u>47,609</u>
Passed Through Texas Education Agency:				
10691000000000	ESEA Title IV, Part A, Safe & Drug Free Schools	204	84.186A	10,707
10610100000000	ESEA Title I Part A	211	84.010A	120,739
10660000000000	IDEA - Part B, Formula *	224	84.027A	948,473
10661000000000	IDEA - Part B, Preschool *	225	84.173A	19,457
10660000000000	IDEA - Part B, High Cost Risk Pool *	226	84.027A	12,882
10554000000000	IDEA - Part B, Formula - ARRA*	283	84.391A	513,255
10555000000000	IDEA - Part B, Preschool - ARRA*	284	84.392A	11,901
10420000000000	Career and Technology Education - Carl D. Perkins	244	84.048A	32,213
10694500000000	ESEA Title II, Part A, Teacher/Principal Training	255	84.367A	52,807
10630000000000	ESEA Title II, Part D - Enhancing Education	262	84.318X	1,068
10671000000000	Title III - Part A, English Language Acquisitions	263	84.365A	12,866
10557000000000	Title XIV, State Fiscal Stabilization Fund - ARRA	266	84.394A	1,689,112
69550902	Early Childhood LEP Summer Program	289	84.369A	1,026
Total passed through Texas Education Agency				<u>3,426,506</u>
Passed through Texas Higher Ed. Coordinating Board to North Harris Montgomery Community College:				
21715	Vocational Education - Tech. Prep.	243	84.243A	7,472
Total passed through Texas Higher Ed. Coordinating				<u>7,472</u>
Passed through Region IV Education Service Center				
1066102271204	ESC - IDEA - Part B, Preschool Discretionary*	225	84.173A	20,000
Total passed through Region IV				<u>20,000</u>
Total Passed through Programs				<u>3,453,978</u>
Total Department of Education				<u>3,501,587</u>
U.S. Department of Agriculture				
Passed Through the Texas Department of Agriculture				
71301001	Non Cash Assistance (Commodities)			
71301001	National School Lunch Program**	240	10.555	62,182
Passed Through Texas Education Agency				
71301001	National School Lunch Program **	240	10.555	139,223
71401001	School Breakfast Program **	240	10.553	11,939
Total Department of Agriculture				<u>213,344</u>
Total Expenditures of Federal Awards				<u>\$ 3,714,931</u>

*Special Education Cluster

** Child Nutrition Cluster

Note 1 -Basis of Accounting

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

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

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

Note 2 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of the District under programs of the federal government for the year ended August 31, 2010. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Government, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net assets or cash flows of the District.

Note 3 - Reconciliation to Basic Financial Statements

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

Total expenditures of federal awards per SEFA	<u><u>\$ 3,714,931</u></u>
Related expenditures on Exhibit C-3	
Special Revenue Funds	<u>\$ 3,714,931</u>

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
REQUIRED RESPONSES TO SELECTED SCHOOL FIRST INDICATORS
SCHEDULE L-1
For the year ended August 31, 2010

SF2	Were there any disclosures in the Annual Financial Report and/or other sources of information concerning default on bonded indebtedness obligations?	No
SF4	Did the district receive a clean audit? Was there an unqualified opinion in the Annual Financial Report?	Yes
SF5	Did the Annual Financial Report disclose any instances of material weaknesses in internal controls?	No
SF9	Was there any disclosure in the Annual Financial Report of material noncompliance?	No
SF10	Total accumulated accretion on capital appreciation bonds included in government-wide financial statements at fiscal year-end.	<u>\$ 120,502</u>

DO NOT PRINT IN REPORT